THE WEATHER — PARIS: Tuesday, cloudy, possible rain. Temp. 6-9 (43-48). LONDON: Tuesday, showers. Temp. 3-5 (37-41). CHANNEL: Moderate. ROME: Tuesday, fair. Temp. 5-17 (41-63). FRANKFURT: Tuesday, cloudy with showers. Temp. 7-9 (45-48). NEW YORK: Tuesday, rain. Temp. 1-7 (34-45).
ADDITIONAL WEATHER DATA — PAGE 22

INTERNATIONAL Herald Tribune

Published with The New York Times and The Washington Post

Algeria 5.00 Din. · Austria 15 S. · Bahrain 0.600 Din. · Belgium 30 B.Fr. · Canada C.$ 1.10 · Cyprus 400 Mils · Denmark 5.50 D.Kr. · Egypt 85 P. · Eire 45 P. · Finland 4.50 F.M. · France 4.00 F. · Germany 2.00 D.M. · Great Britain 30 P. · Greece 40 Drs. · Iran 135 Rials · Israel I.S. 17.00 · Italy 800 Lire · Jordan 400 Fils · Kenya Shs. 14.00 · Kuwait 450 Fils · Lebanon £3.50 · Libya L.Din. 0.30 · Luxembourg 30 L.Fr. · Madeira 45 Esc. · Malta 30 Cents · Morocco 5.00 Dh. · Netherlands 2.25 Fl. · Nigeria 100 K. · Norway 4.50 N.Kr. · Oman 0.650 Rials · Portugal 40 Esc. · Qatar 6.00 Rials · Saudi Arabia 5.50 Rials · Spain 70 Ptas. · Sweden 4.50 S.Kr. · Switzerland 1.80 S.Fr. · Tunisia 0.425 Din. · Turkey T.L. 80.00 · U.A.E. 6.50 Dirh. · U.S. Mil. (Eur.) $0.75 · Yugoslavia 35 D.

No. 30,720 **R PARIS, TUESDAY, NOVEMBER 24, 1981 Established 1887

Reagan Vetoes Bill; Congress Acts to Restore Funding

By Fred Farris
International Herald Tribune

WASHINGTON — In a dramatic confrontation with Congress that produced a partial shutdown of the federal government, President Reagan Monday vetoed what he called a "budget-busting" $427.9-billion emergency spending bill.

The House shortly afterward voted 367-26 to give Mr. Reagan his requested simple extension of 1981 spending authority until Dec. 15.

The bill was also approved by the Senate, 88-1, and the president was expected to sign it before the day ended, enabling federal agencies to resume full operations.

The president, to back up his veto, had ordered a shutdown of "all unnecessary government services" because federal spending authority had expired at 12:01 a.m. Saturday. He had announced his veto and the government shutdown on network television at 8 a.m. Monday.

The veto, Mr. Reagan's first in his 10 months in office, precipitated a confrontation with Congress that resulted in the furlough of thousands of federal workers without pay.

End to Stalemate Sought

Although Democratic leaders accused Mr. Reagan of "theatrics," congressional leaders quickly sought a way to end the stalemate and get the government functioning again.

House Democratic leaders, including Speaker Thomas P. O'Neill of Massachusetts, at first offered a proposal to continue the 1981 spending levels to next Feb. 3. It would have included a large cut in defense spending, which Mr. Reagan does not want.

Rep. O'Neill said the Democrats were offering the president a further $2.5 billion in savings by Feb. 3, but both the White House and Howard H. Baker Jr., the Senate majority leader, said an extension of that length was "totally unacceptable."

The Republican minority in the House then offered a proposal with a Dec. 15 cutoff date, and that plan was tentatively approved by 221-176, with 43 Democrats crossing over to vote with the Republicans. It was given final approval by a 367-26 vote.

Mr. Reagan favors a short continuing resolution because the interim spending measures provided for less defense spending and more domestic spending than the president wants.

The confrontation had been precipitated when Congress on Sunday sent the president an emergency spending bill for fiscal 1982 that Mr. Reagan felt was too expensive. Mr. Reagan had let it be known beforehand that he would veto the measure, but both the Republican-controlled Senate and Democratic-controlled House passed it anyway.

The administration said that measure, which reached Mr. Reagan's desk Monday morning, gave the president only about $2 billion of the $8.5 billion in spending reductions he wanted.

When he went on television Monday morning the president announced he was carrying out the veto threat and rejecting the bill that he said represented "neither fair compromise nor responsible budget policy."

Mr. Reagan said that his choice was: "Either to sign a budget-busting appropriations bill that would finance the entire government at levels well above my recommendations and thus set back our efforts to halt the excessive government spending that has fueled inflation and high interest rates and destroyed investments for new jobs; or to hold the line on spending with a veto, but risk interruption of government activities and services.

"I have chosen the latter," he said.

Rep. O'Neill called the president "unbelievable."

Rep. O'Neill, who has served in the House under seven presidents, said Mr. Reagan, "knows less about the budget than any other president in my lifetime. He can't even carry out a conversation about the budget …

He's only out there for the theatrics."

Larry Speakes, the deputy White House press secretary, said Mr. Reagan told a Cabinet meeting Monday morning, "This is not theatrics. This is for real."

In his five-minute statement on television, the president acknowledged the stalemate and said that "failure to provide a reasonable resolution means that some citizens may be inconvenienced and that there is a possibility of some temporary hardship …

"Nevertheless, a far greater threat to all Americans is the sustained hardship they will suffer by continuing the past budget-busting policies of big spending and big deficits."

After Mr. Reagan ordered the partial government shutdown, Mr. Speakes predicted that by the end of the day Tuesday 400,000 of the federal government's 2.9 million workers would be laid off.

At noon, federal employees here began leaving their offices. The Commerce and Education departments told most workers to consider themselves furloughed until further notice. Most Treasury clerical workers were told to leave at 1 p.m.

The interim funding measure was needed because most of the regular appropriation bills have not yet been approved by Congress.

The Associated Press

Soviet President Leonid I. Brezhnev and Chancellor Helmut Schmidt review West German soldiers prior to a reception ceremony. Mr. Brezhnev is on a three-day official visit to Bonn.

Brezhnev Turns Down Reagan Ban on Missiles But Offers Reductions

From Agency Dispatches

BONN — Soviet President Leonid I. Brezhnev rejected President Reagan's proposal for eliminating European-range nuclear missiles Monday but offered a reduction of Soviet missiles as "a gesture of good will." He also made clear that the United States would be expected to follow suit.

In his first public response to Mr. Reagan's suggestions of last week, the Soviet leader announced what he called "a new, an essential element in our position" during a banquet given by Chancellor Helmut Schmidt.

"As a gesture of good will we could unilaterally reduce a certain portion of our medium-range nuclear weapons in the European part of the U.S.S.R.," Mr. Brezhnev said.

"We could make reductions, so to say, as an advance on account, with the idea of moving toward a lower level on which the U.S.S.R. and the U.S.A. could concur as a result of the negotiations," he said, referring to U.S.-Soviet arms talks beginning next Monday in Geneva.

Mr. Brezhnev told his West German hosts he hoped for "radical reductions of medium-range nuclear weapons" at the Geneva talks.

"As far as our side is concerned, we would be ready to undertake the reductions not by dozens, but by hundreds of units of weapons of this type. I repeat, by hundreds of units."

In earlier meetings, the Soviet leader rejected Mr. Reagan's proposal that NATO scrap plans to deploy 572 new nuclear missiles in Europe if the Soviets dismantle their nuclear rockets aimed at the West.

The banquet followed a day of talks with Mr. Schmidt on the nuclear balance in Europe. In the speech Mr. Brezhnev called on the United States to "handle the issue more objectively" and to seek a solution acceptable to both sides.

Encouraged by Mr. Schmidt, Mr. Reagan last week offered Moscow a "zero option" under which the Soviet Union and the United States would both agree to renounce medium-range nuclear missiles in Europe.

Mr. Reagan said that the United States would refrain from deploying 572 Cruise and Pershing-2 missiles in Western Europe if the Soviet Union scrapped its SS-20, SS-4 and SS-5 missiles, which are capable of reaching Western Europe. The Western missiles are scheduled for deployment in late 1983.

Although the official Soviet media have attacked the Reagan proposal, it was the first comment on it from Mr. Brezhnev.

The Soviet leader renewed an offer made last February for a freeze of both sides' medium-range systems in Europe — an offer that NATO has rejected.

Mr. Brezhnev's offer of a unilateral cut was first made in a speech in East Berlin in October, 1979, shortly before NATO approved its rearmament plan. It was resurrected by Defense Minister Dmitri Ustinov in an article in Pravda last July.

Schmidt Urges Summit

In a speech prepared for delivery at the banquet, Mr. Schmidt renewed Bonn's commitment to East-West detente but said that West Germany was deeply concerned by the Soviet missile buildup in Europe.

If the U.S.-Soviet talks on limiting medium-range nuclear arms in Europe failed to bring results by the end of 1983, West Germany would go ahead with the stationing of the U.S. Cruise and Pershing-2 missiles on its soil, he told Mr. Brezhnev.

Mr. Schmidt also reminded the Soviet leader of the need to ensure the independence of Afghanistan, and called for a withdrawal of foreign troops from that country.

The chancellor, who played a key role in setting up the U.S.-Soviet arms talks in Geneva, welcomed signs of a more intensive dialogue between the Kremlin and the Reagan administration.

"It would be especially significant if you, Mr. General Secretary, were to meet with the president of the United States. Such a meeting could set a clear sign of hope and trust," he said.

Mr. Brezhnev proposed a summit meeting with Mr. Reagan last February, and a Soviet spokesman said Monday that the Kremlin still thought such a meeting would be useful but would have to be thoroughly prepared.

The West German leader devoted most of his speech — which will appear Tuesday in Soviet newspapers — to a detailed summary of Western views on the European nuclear balance.

"Our position is firmly embedded in the common position of the West," he said. "We have continually played a substantial part in formulating this common position, and we shall continue to do so.

"Our past, our country's geographical position, our nation's political position make it even more urgent for us than for others to seek new ways and means of continuing detente and cooperation," he said.

Mr. Schmidt said he wanted a "comprehensive political partnership for security" with Moscow under which peace could be maintained by collaboration rather than by confrontation.

He reminded Mr. Brezhnev that at their last meeting in West Germany in 1978 they had agreed to respect the principle of approximate military parity.

Since then the Soviet Union had increased its deployment to more than 250 mobile SS-20 missiles with more than 750 accurate warheads, which "has a direct impact on our security interests and gives us grounds for great concern," he said.

Italy Copter Crash Kills 2

The Associated Press

CAGLIARI, Sardinia — An Italian Army helicopter on a routine training flight crashed near a military base on Monday, killing the two pilots, army officials reported.

China to Let Workers Find Own Jobs, But Ends Employment Guarantee

By Michael Parks
Los Angeles Times Service

PEKING — In a major economic policy change, the Chinese government on Monday gave up its monopoly on urban employment. The action gives workers the right to find their own jobs, but also ends the 30-year-old guarantee of a state job.

A decision by the Communist Party's Central Committee and the State Council also said that urban cooperatives and private businesses would have to be expanded further to create jobs for city youth, reversing the previous Socialist trend toward state ownership and perhaps even returning some state enterprises to the workers.

The joint party-government decision also ordered an end to discrimination against those employed in collective or private enterprises, saying they were to get equal treatment with state workers and were even to be admitted to the party on the same basis.

Behind the far-reaching decision lies China's efforts over the past three and a half years to find jobs for more than 20 million urban unemployed, once more than a fifth of the labor force in Chinese cities.

The state can no longer provide jobs for all urban workers in its enterprises, an accompanying editorial in the party newspaper People's Daily declared, and individuals must now accept responsibility for finding employment for themselves.

Although China had long claimed that it could employ all its urban workers and that this proved the superiority of its Socialist system, the People's Daily said Monday that this boast was mistaken because the state simply did not have jobs for the expanding urban labor force.

Increased employment could only be based on greater production, the editorial continued, and this was more likely to be found in retail trade and in the service sector of the economy in the future. Private and collective enterprises would moreover offer more job opportunities in these areas than the state could.

In economic terms, the decision only confirms what had already become policy in Peking, Shanghai, Canton, and several other major cities, where at least half the new jobs in the past three years had come from private businesses and urban co-ops. Politically, however, the action has broad implications for the rest of the country and the whole economy.

"While the Socialist economy dominates and guides," the decision said, "the coexistence of different economic forms is one of our party's strategic decisions and not just an expedient measure."

Terms of Decision

The decision calls for the expansion of both collectively owned enterprises and private businesses, and it specifically authorized each individual businessman to hire as many as seven other persons, rather than the two permitted before, to help him without fear of charges of capitalist exploitation of labor.

Under terms of the decision, urban workers will be able for the first time since the 1950s to look for their own jobs rather than wait-

(Continued on Page 2, Col. 4)

Paisley Leads March Of New Vigilante Unit

The Associated Press

NEWTOWNARDS, Northern Ireland — The Rev. Ian Paisley led a general strike of Northern Ireland Protestants on Monday, then unveiled his new Third Force vigilante group in a military-style parade through this town near Belfast.

Defying British government warnings that it would not tolerate private armies in the embattled province, Mr. Paisley marched at the head of thousands of Protestant Loyalists, who wore masks, combat garb and orange armbands. Some carried clubs as they paraded three abreast.

The Presbyterian minister claimed that at least 19,000 men were behind him in the parade, but reporters estimated the number at between 6,000 and 8,000.

The evening rally on the main street of this town 14 miles east of Belfast climaxed a day of Protestant protest aimed at forcing the British government to crack down on the almost exclusively Roman Catholic Irish Republican Army and to end cooperation talks with the Catholic-dominated Irish Republic.

"We are not going into an Irish Republic — never, never never," the Mr. Paisley declared at an earlier rally in Belfast.

Tens of thousands of Ulster Protestants, angered by British government policies, left factories, offices and stores in the 12-hour work stoppage, which began at noon. They gathered at protest rallies across the province and jammed dozens of town centers with caravans of cars, tractors and trucks.

Mr. Paisley said that the stoppage was 100-percent effective. But the Confederation of British Industry said that "an average 70 percent-plus" had quit work. The confederation assistant director, Alan Burnside, said that some people went home to avoid traffic snarls.

Central Belfast's department stores and banks remained open, he added.

Thirty thousand British troops and police were on alert, but they kept a low profile throughout the day and reported no violence in the province.

However, the IRA claimed responsibility for a bombing Monday in London. A booby-trapped bomb, disguised as a toy pistol, exploded at the Woolwich army barracks. Two soldiers' wives were injured. One of them lost three toes of her right foot. They had been walking their dogs, and one of the animals triggered the device, according to an army spokesman.

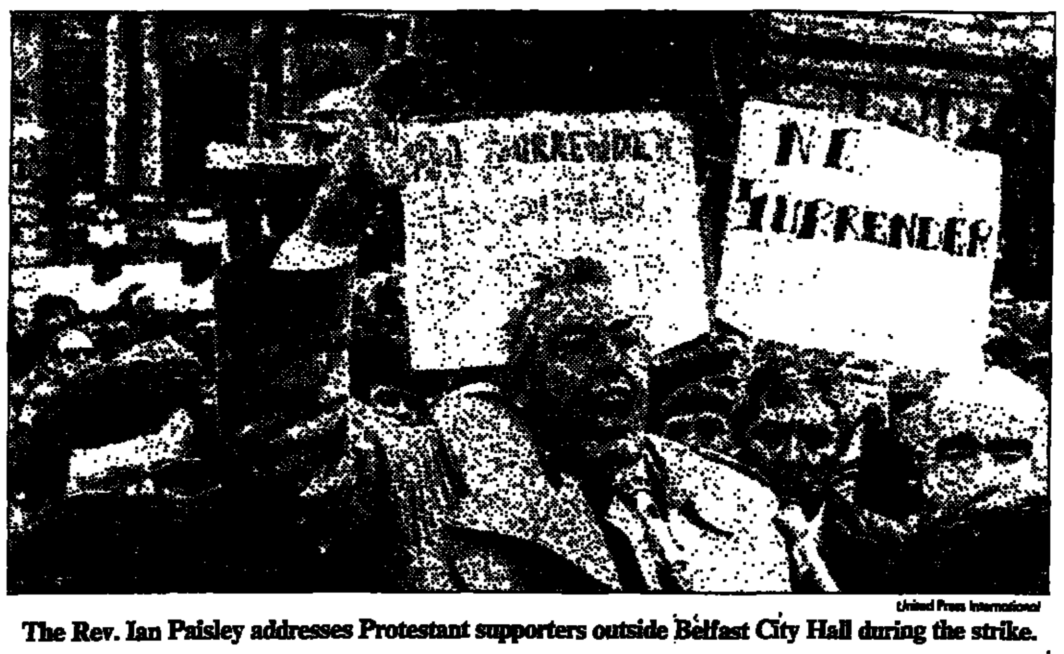
At Newtownards, Mr. Paisley's supporters sealed the town off at nightfall, stopping and checking all cars.

Cannot Take More

Addressing the crowd in the town's main square, John McQuade, a veteran Loyalist from Belfast's Shankill Road Protestant stronghold, and a leading Paisley aide, called for "all-out war" on the IRA. "The IRA should be shot on sight," he declared.

Earlier, Mr. Paisley addressed a crowd of 3,000 at a rally outside Belfast's City Hall and was cheered by supporters waving red-and-white Ulster flags when he

(Continued on Page 2, Col. 8)



United Press International

The Rev. Ian Paisley addresses Protestant supporters outside Belfast City Hall during the strike.

U.S. Losing Patience On Managua, Aides Say

By Don Oberdorfer
Washington Post Service

WASHINGTON — Two senior administration figures, Secretary of State Alexander M. Haig Jr. and presidential counselor Edwin Meese 3d, say that time is running out on U.S. patience with Nicaragua, but both decline to disclose what U.S. action is being contemplated.

"We have not given up on Nicaragua, but the hours are growing rather short," Mr. Haig said Sunday. He complained of a "drift toward totalitarianism" and "a high influx of sophisticated armaments" from the Soviet Union and its allies.

He said that Nicaragua's leadership "has rejected" U.S. offers of political accommodation made through diplomatic channels in recent weeks.

Mr. Meese, speaking in similar terms, said that "the hour is late" in view of the Nicaraguan military buildup, which he said includes Cuban participation. He added: "There is a threat to other countries in Central America, and that's why there is a great deal of concern, not just by the United States but by other countries in Latin America."

Questioners were unsuccessful in obtaining details of the likely U.S. response from Mr. Haig, Mr. Meese and Secretary of Defense Caspar W. Weinberger, who appeared separately on the regular Sunday interview programs of the three major U.S. television networks.

The interviews covered a range of foreign-policy topics, including President Reagan's proposal in the coming U.S.-Soviet negotiations on medium-range nuclear weapons in Europe, a possible U.S.-Soviet summit meeting and coming U.S.-Israeli talks on strategic cooperation in the Middle East.

Nicaragua is strengthening ties with Russia, Arab nations. Page 3.

The effort to discover even the drift of administration thinking about dealing with Nicaragua ran into a refusal to divulge contingency plans or to accept or reject military action as a likely possibility.

Mr. Meese, who went further than the others, narrowed the range of potential actions, ruling out the use of U.S. "military ground forces" within Nicaragua, but declining to rule out a naval blockade around that country.

Mr. Meese also qualified Mr. Reagan's statement of Nov. 10 that "we have no plans for putting Americans in combat any place in the world." The White House counselor defined this as "no present plans" for use of U.S. forces. Asked for a time limit, he responded, "The present is the present, and I would say the foreseeable future."

An Option

One of the options being contemplated, Mr. Meese said, "involves putting pressures on Nicaragua by other nations in the area."

Mr. Haig appeared to be hinting at the same point by saying it is vitally important that "neighboring states" as well as "the forces of freedom in Nicaragua" recognize the threat arising from the "huge military structure" being created in Nicaragua. He said the influx of weaponry is from the Soviet Union and Eastern Europe "directly through Cuba."

Mr. Haig flew to Mexico City Monday for two days of talks with Mexican leaders, and is scheduled to visit the Caribbean island of St. Lucia Dec. 2 for a meeting of the Organization of American States. U.S. concerns about Nicaragua and Central America are expected to figure in both sets of talks.

United Press International

FINNISH NOMINEE — Johannes Virolainen, speaker of the Finnish parliament, has won the nomination of the Center Party to run for president in January. He defeated Ahti Karjalainen, a former foreign minister who had been widely regarded as Moscow's preference. Story, Page 5.

Turkish Premier Hardens Attitude to Critics

Ulusu Says Government Will Not Accelerate the Restoration of Democracy

By Axel Krause
International Herald Tribune

ANKARA — Reflecting a hardened stance toward West European critics, Turkey's Premier Bulent Ulusu says the ruling military government will neither accelerate its promised restoration of democracy nor disclose a timetable for a new constitution and elections.

"Arms caches are still being found in Turkey and a reasonable amount of time will be needed in this transitional period before we can return to a parliamentary democratic system, as announced the day the Turkish armed forces intervened," Mr. Ulusu said during an interview last week.

What the premier and other top Turkish officials said they feared most is a revival of the terrorism by both rightists and leftists that paralyzed the nation at the time of the coup on Sept. 12, 1980.

Western critics, mainly in Europe but also to some extent in the United States, say the regime is stalling on the restoration of democracy by continuing to ban political and union activities and that torture, while less common now, is still being practiced.

Mr. Ulusu, a retired admiral and former commander of the Turkish Navy, said that an outline of Turkey's future political system might be announced during the first six months of next year but not earlier.

Other, authoritative Turkish officials in Ankara said that the entire process may take several years.

"We are in the midst of crisis-management and like navigators, we are still charting the course," said an official of the National Security Council, the regime's ruling executive body.

Most Western officials and diplomats interviewed during the past two weeks agreed that the regime is sincere in its promises to restore democracy. "The question is not if but when," said the ambassador of a leading NATO country.

Mr. Ulusu praised the Reagan administration for its "understanding" of the nation's internal situation while bluntly attacking critics in Western Europe.

Called 'Systematic'

He said their attacks on the regime reflected "a systematic campaign being conducted by elements who are extensions of the terrorist organizations that were operating in Turkey" before the coup.

Authoritative Turkish sources said the terrorist groups were based primarily in Western Europe but were also found in Eastern Europe.

"By exploiting humanitarian concepts, these terrorist elements are trying to manipulate foreign institutions, circles and public opinion for their own purposes," Mr. Ulusu said.

He emphasized that the criticism was coming from "certain people, circles and nongovernmental organizations," rather than from heads of European governments, but he declined to identify them more specifically.

Turkish officials and Western diplomats interviewed in Ankara noted that the most outspoken critics have included West German Foreign Minister Hans-Dietrich Genscher, commissioners of the European Economic Community, deputies in the European Parliament, as well as Socialist and trade union leaders throughout northern Europe.

Some of these officials, particularly those within EEC bodies, have recently warned the Turkish leaders that unless restoration of democracy is accelerated, Europe might suspend several hundred million dollars in economic aid to Turkey during 1982.

Mr. Ulusu and other top Turkish officials acknowledged that the country was under pressure and that there was the possibility it would be expelled from the 21-country Council of Europe.

"We do not have an elected government … id cuts and expulsion from the council are possible … but it is up to the Europeans not us," said a senior Turkish official.

"We expect our allies to be more diligent against such instigations and not become instruments of the intentions of these terrorists," Mr. Ulusu said, adding that the Reagan administration has "shown far more understanding for our situation … U.S. officials are better informed than the Europeans."

Mr. Ulusu also indicated that his government was bracing for renewed European criticism when former Premier Bulent Ecevit is ordered to begin serving a four-month prison sentence, probably within 10 days.

Mr. Ecevit, a Social Democrat, was convicted Nov. 3 of defying a government decree for-

(Continued on Page 2, Col.7)

INSIDE

Arafat Steps Up His Politicking on Fahd Plan

By John Kifner
New York Times Service

BEIRUT — Yasser Arafat, a wily survivor, long accustomed to delicate political juggling among the Palestine Liberation Organization's cantankerous Arab sponsors, is maneuvering this week at a moment fraught with opportunity and pitfalls.

As Arab League leaders prepared to meet Wednesday in Fez, Morocco, to consider — or pigeonhole — Saudi Arabia's controversial plan for the Middle East, Mr. Arafat was characteristically racing from capital to capital pursuing last-minute diplomacy.

Arab capitals were paying lip service to the Palestinian cause, but twisting the issues to fit their national agendas. This was not unusual, given the Palestinians' history. Sponsored for years by Saudi Arabia as a counterbalance to Gamal Abdel Nasser's pan-Ara-

NEWS ANALYSIS

bism, the Palestine Executive Committee, as the nationalist group was orginally called, did not receive Egyptian support until 1968. Mr. Arafat and his el-Fatah faction took over the Palestinian leadership in 1969.

They were thrown out of Jordan in the "Black September" fighting in 1970 and took refuge in Lebanon where they were welcomed at first by many Lebanese factions. Syria was a friendly patron for a time, until the PLO joined with leftist Moslems and appeared to be coming out ahead in Lebanon's civil war. Syria, preferring to keep Lebanon divided and weak, sent troops in 1976 to prop up Lebanese Christians. Syrian-sponsored Saiqa guerrillas clashed with their cousins in the PLO.

After 1976, Mr. Arafat was obliged to stay on the right side of Syrian President Hafez al-Assad. But of late, Palestinian leaders have complained openly about Syrian "domination" and Syria has taken under its wing the maverick Palestinian leader Abu Nidal, once under the patronage of Syria's rival, Iraq. Abu Nidal calls Mr. Arafat and his Fatah moderates "traitors" and has vowed to kill them. Like Egypt and Iraq and Libya — the list is long — Syria traditionally has viewed itself as the leader of the Arab world and has resented rival aspirations.

Libyan money and weapons have usually by-passed Mr. Arafat, going to "rejectionists" such as the Popular Front for the Liberation of Palestine General Command. Moamer Qadhafi even threw Mr. Arafat's representative out of Tripoli for a time last year. Israeli military strikes often are directed at well-armed, Libyan-backed factions in Lebanon, which does not entirely displease Mr. Arafat's cadre.

Avoiding the Issue

Shifting from one patron to another, Mr. Arafat spotted an opportunity and rushed to Tehran to embrace Ayatollah Ruhollah Khomeini in 1979, shortly after the Iranian revolution. But Iranian-Saudi feuding has rubbed off on the Palestinians, and last week crowds in Tehran were chanting "Death to Arafat, Death to Fahd."

Mr. Arafat began boosting the eight-point Saudi plan when it appeared in August, but it was largely ignored until the assassination of Egyptian President Anwar Sadat changed the complexion of Middle East politics, particularly for the United States. The plan would require Israel to relinquish lands conquered since 1967 and to dismantle its West Bank settlements. It would establish a Palestinian state with East Jerusalem as its capital — all proposals vigorously rejected by Israel.

The sticking point for Arab militants, and the attractive part to the Reagan administration, is Point 7, endorsing the right of all states in the area to live in peace. That appears to tacitly recognize Israel.

Mr. Arafat has, as usual, danced all around the question. His interviews and comments on the Fahd plan have been followed by denials, corrections and clarifications designed to keep him off the hook. He praised the proposal as "a good basis for negotiations," thus appearing not to be strictly bound to each point. Speaking to Palestinian students here last week, he added other reservations: The plan does not specifically recognize the PLO; it is limited to lands Israel has occupied since 1967; the Soviet Union must play a role in any international conference on the Middle East.

Will Prince Fahd's plan gain the backing of the Arab League at Fez? "Watch Syria," an important Palestinian functionary advised. "If Syria says nothing, there is a good chance." The Syrian foreign minister, Abdel Halim Khaddam, flew to Riyadh last weekend to meet with Saudi King Khalid and Prince Fahd.

Later, the Saudi foreign minister, Prince Saud, went to Damascus and urged Syria to back the plan so that it could be presented to Washington from a position of united Arab strength. Since Saudi diplomacy has sometimes been conducted with satchels of petrodollars, there was speculation as to what the Syrians were asking.

Israel May Veto EEC Role in Sinai Force

By Richard Eder
New York Times Service

PARIS — France, Britain, Italy and the Netherlands announced on Monday an agreement to take part in a peacekeeping force to be sent to the Sinai after Israel completes its withdrawal next spring.

The agreement was reached after weeks of tortuous negotiations that came close to breaking down at several points. The result was a complex series of statements worded to avoid outright condemnation by the Arab states and an outright rejection from Israel. It was not clear whether the first objective would be met; and by Monday evening an Israeli spokesman had put the second in grave doubt.

[In Jerusalem, Israel said that the announcement "seems in contradiction to the Camp David agreements," The Associated Press reported.

[An Israeli Foreign Ministry statement said Prime Minister Menachem Begin's government "will discuss and decide on the whole complex of problems" regarding the force that is to patrol the Sinai desert after Israel relinquishes the eastern sector to Egypt in April. The issue was expected to come up for a Cabinet decision by Sunday.]

The difficulty of the negotiation and the small room that the European nations have for maneuver among the various parties in the Middle East conflict was reflected in several ways.

The announcement is extremely vague on the forces to be sent. The total force, including contingents from the United States and several other countries, is to number about 2,500. The four European countries had originally been expected to contribute about half of the force, but nothing was said about this in the announcement. A French spokesman indicated that France might send no men at all — only equipment. In London, Humphrey Atkins, the deputy foreign secretary, estimated that the British contribution might be about 100 men.

3 Announcements

There were also three different announcements. One was issued by the four participants, and a second was issued by these, together with the other six members of the European Economic Community. Finally, there were separate national statements issued by Paris and London. Although not conflicting, all of these versions had varying purposes and nuances.

Europe has had a dilemma in dealing with the question of contributing to the Sinai force, which had been agreed upon between Israel and Egypt in the Camp David negotiations for peace.

Camp David has been repudiated by the Arab states, with the exception of Egypt, and the Arabs have warned the Europeans who sought to play a mediating role, to steer clear of it. Participation in the Sinai force is seen by the Arabs as participation in Camp David, and the Europeans had originally hoped to stay out of the force.

But in recent months the United States has increasingly pressured them to participate. The pressure produced several near ruptures between Secretary of State Alexander M. Haig Jr. and British Foreign Secretary Lord Carrington, who has been the chief European negotiator.

Bid to Pacify Arabs

The European solution was to participate but to compensate for this affront to the Arabs by a declaration that would attempt to pacify them. Unfortunately, statements aimed at pleasing the Arabs are almost certain to affront the Israelis.

The four-power statement said that the four considered that their participation in a force was separate from the rest of the Camp David process. This was a reference to the provisions — considered unacceptable by the Arabs and insufficient by the Europeans — regarding Palestinian rights. But just as the Arabs reject Camp David, Israel has insisted that it would reject any statement by the prospective European participants that seemed to repudiate Camp David.

The statement did not refer directly to the other Israeli insistence: that no reference be made to the Palestinians' right to a homeland — a formulation adopted by a European meeting in Venice last year. It approached it indirectly, however, by saying that the four nations's decision to take part in the Sinai force "did not affect their well-known position on other problems in the region."

Polish Dissident Says Police Won't Deter His New Group

By Brian Mooney
Reuters

WARSAW — Jacek Kuron, one of the founders of a new opposition movement in Poland that challenges one-party Communist rule and calls for revision of relations with Moscow, said Monday that he was undeterred by police action against members of the movement.

Mr. Kuron, a prominent dissident leader, said that the 40 founding members, who include officials of the independent union, Solidarity, would present themselves at a public meeting Sunday. The dissident, who played a key part in founding Solidarity 15 months ago, made the statement to reporters after being questioned for an hour at Warsaw police headquarters.

He had been summoned there after police raided his home Sunday, broke up a meeting of 40 activists and seized a founding declaration that they had all signed.

The official news agency, PAP, said that the declaration was anticonstitutional and anti-Communist and added that the authorities were now confronted with a full-fledged opposition party.

Basis of Parties

The declaration said that the movement wanted to establish "clubs of the self-governing republic" throughout the country to form the basis of future political parties in an independent and democratic Poland.

It said that the movement had grown out of public disillusionment with developments since Solidarity's founding.

"The belief that a social protest movement would soon lead to the emergence of a democratic and independent state has turned out to be an illusion," the declaration said.

It said that the introduction of free unions had paralyzed what it called the totalitarian state, forcing it to fall back on threats of force and police repression. "Worsening living conditions pose a real threat of violent public outbursts … The apathy of people exhausted beyond endurance can easily erupt into aggression," the declaration said.

"The time has come for the creation of new bases for social energy," it added, arguing that Poland needed a serious political approach in place of the spontaneous idealism of the last months.

Solidarity Program

Mr. Kuron, who helped found the Social Self-Defense Committee (KOR) in 1976 and is a key adviser to Solidarity, said that the declaration was based on the program adopted at the recent Solidarity national congress in Gdansk.

He was asked if he accepted government charges that the clubs his organization wanted to form are anti-Communist. He replied: "If they consider Solidarity's program as anti-Communist, then allegations like that might fit."

Stating that totalitarian dictatorship had never worked in Poland, the declaration said that it aimed to promote multiparty parliamentary democracy. It said that the Polish Communist Party's only claim to rule was based on the threat of Soviet intervention which, it added, could be avoided.

The declaration also suggested the concept of renegotiating Poland's relations with Moscow.

"Poles, bereft of civil rights, had no influence on the model of Polish-Soviet relations that emerged in the Stalinist era and has remained intact until today," the declaration said.

"In future negotiations with the U.S.S.R., in which authentic representatives of Poland take part, a new arrangement should be worked out in which necessary self-limitation does not violate national sovereignty," it said.

Russia May Cut Energy Sales

BUDAPEST (Reuters) — The Soviet Union, faced with growing demands at home and in Poland, will have to cut its energy exports to the rest of Eastern Europe by up to 10 percent in the current 1981-1985 five-year plan, according to informed Hungarian sources.

The cuts will be discussed in bilateral trade talks in the next few weeks, the sources said, with special emphasis on how much Soviet oil, natural gas and other energies each smaller Communist economy could forgo.

Zia, Evren Meet in Pakistan

United Press International

ISLAMABAD — Turkey's head of state Gen. Kenan Evren and President Mohammed Zia ul-Haq held talks here Monday on international and bilateral issues. No details were immediately available, but earlier Pakistani officials said the discussions would concentrate on Afghanistan and the Middle East.

United Press International

Farouk Kaddoumi, left, head of the political department of the Palestine Liberation Organization, arriving at Fez, Morocco, for the meeting of the foreign ministers of the Arab League.

Hard-Line Arab Opposition To Saudi Plan Seems to Grow

By Michael Goldsmith
The Associated Press

FEZ, Morocco — Arab foreign ministers held intensive secret discussions Monday on the Saudi Arabian peace plan for the Middle East amid growing opposition from hard-liners to any Arab recognition of Israel.

On the second day of a ministerial meeting preparing for the Arab conference opening here Wednesday, it became apparent that the peace plan of Saudi Crown Prince Fahd had little chance of unanimous Arab approval at present.

The seventh of Prince Fahd's eight points proposes "recognition of the right of all states in the region to live in peace" under UN guarantees.

A high delegation source, who asked not to be named, said a substantial majority of the 21 Arab League members favored the plan, but added "determined opposition" from the hard-liner minority could block its formal approval by the conference later in the week.

The Saudi foreign minister, Prince Saud al-Faisal, lobbied actively for the plan among his fellow ministers, while the leader of the Palestine Liberation Organization, Yasser Arafat, was in Saudi Arabia reportedly discussing it with King Khaled and Prince Fahd. The crown prince was expected to lead the fight for the plan at the meeting.

Mr. Arafat has been on a tour of Arab capitals and repeatedly has expressed cautious approval of the plan. But his chief foreign policy adviser, Farouk Kaddoumi, surprised Prince Faisal during backstage talks here with a generally negative position on the plan, conference sources reported.

Talking to reporters, Mr. Kaddoumi said the 7th point of the plan was unacceptable to the PLO as long as it is not accompanied by "explicit guarantees" from the big powers, particularly from the United States.

Mr. Kaddoumi did not spell out what kind of guarantees he had in mind, but he said total U.S. and Israeli acceptance of every part of the plan was also an essential precondition for PLO acceptance.

Israel has rejected the plan because several of its key provisions are unacceptable to the government of Menachem Begin. These include the creation of a PLO-led Palestinian state in areas held by Israel since the 1967 war, evacuation of East Jerusalem, the West Bank and the Gaza Strip, liquidation of all Jewish settlements established in the West Bank under Israeli occupation and the right of Palestinians to return to their former homes inside Israel.

Moderate Arabs claim, however, that the plan represents a major turning point in more than three decades of conflict because it is the first step toward general Arab recognition of Israel.

France Reports South Africa Got Enriched Uranium

The Associated Press

PARIS — The French Foreign Ministry announced Monday that South Africa had obtained enriched uranium on the international market for a nuclear power plant project.

Framatome, a company owned in part by the government, is processing the uranium into fuel rods, under an existing contract with South Africa's Electrical Supply Commission, a Foreign Ministry statement said. It added that there were no plans for any further agreement between the French company and South Africa.

Under its contract with Framatome, South Africa provides the uranium and the French company makes fuel rods and is responsible for starting up the plants. The ministry statement said that the 70 to 76 tons of enriched uranium that South Africa provided to Framatome was obtained on the international market. It did not reveal the source of supply.

Several countries besides the United States manufacture uranium, including the Soviet Union, China and France.

China Allows Job Hunting, But Ends Guaranteed Work

(Continued from Page 1)

ing, sometimes for three or four years, for the state to assign them to enterprises. At the same time, however, the state will no longer be the employer of last resort, guaranteeing every worker a job eventually. This will introduce competition into the labor market for the first time in decades.

The People's Daily confirmed that the government will have difficulty in meeting its goal of 9 or 10 million new jobs this year. In the first nine months, jobs were found for about 4.8 million urban youths, indicating that unemployment at year's end may be six million or seven million rather than the four million originally anticipated.

Although China has found jobs for more than 20 million in the last three years, reducing its urban unemployment substantially, officials feel they are near the limit of the jobs they can create in state-owned industry.

Jailed Egyptian Writer Transferred to Hospital

The Associated Press

CAIRO — Mohammed Hassanein Heikal, 57, Egypt's best known international author, who was one of 1,563 persons arrested in September by the late Anwar Sadat in a crackdown on political and religious foes, has been moved from his prison cell to a hospital for treatment of a kidney ailment, medical sources said Monday.

Mr. Heikal, a critic of Egypt's peace policy with Israel, and a former editor-in-chief of the semi-official newspaper Al-Ahram, was said to be "doing fine."

Yemeni Leaders in Kuwait

United Press International

KUWAIT — The presidents of Yemen and Southern Yemen arrived on Monday for talks on improving relations between the two nations with Kuwait acting as a mediator. Southern Yemeni President Ali Nasser Mohammed and Yemeni President Col. Ali Abdullah Saleh were expected to hold talks under the auspices of the emir of Kuwait, Sheikh Jabir al-Ahmad al-Sabah.

Correction

A Washington Post dispatch from London in Monday's editions of the International Herald Tribune incorrectly identified Guy Burgess, one of the three British spies who fled to Moscow.

WORLD NEWS BRIEFS

SWAPO Calls on South Africa to Act

Reuters

LUSAKA, Zambia — South-West Africa (Namibia) guerrilla leader Sam Nujoma said Monday that the next move in the Namibian peace initiative was up to South Africa and the Western "contact group."

Mr. Nujoma arrived in Lusaka from an African ministerial meeting in Dar es Salaam that had drafted a reply to constitutional and other independence proposals circulated by the contact group, the United States, Britain, France, West Germany and Canada.

Asked at a press conference if he felt there had been any progress toward independence for South-West Africa, which South Africa administers in defiance of UN resolutions, Mr. Nujoma, whose South-West Africa People's Organization (SWAPO) is waging a war for independence, replied: "This question must be asked of the South African racist regime and of the contact group and not SWAPO."

Meanwhile, in Windhoek, South-West Africa, a spokesman for South African troops in the area said that they had killed 114 SWAPO guerrillas during the last two weeks.

S. Africa to Relax Sports Segregation

United Press International

JOHANNESBURG — South Africa plans to abolish forced segregation in professional and amateur sports, but not in school sports, Education Minister Gerrit Viljoen told the Johannesburg Star Monday.

Mr. Viljoen said that the government believed in a hands-off policy on professional and amateur sports, but said school sports should remain racially segregated.

He termed the question of school sports "a sensitive matter" that could evoke a white backlash against mixing races in competition. "I think that if we exert pressure to mix to a large extent in school sport there will be a serious backlash," he said. "This area is one that is clearly nonnegotiable."

Opposition in India Attacks Gandhi

Reuters

NEW DELHI — Opposition groups attacked Prime Minister Indira Gandhi's government on Monday over a loan of $5.8 billion that it has negotiated with the International Monetary Fund.

The government was also criticized for its new anti-strike powers and in connection with the killing of 24 Untouchables in northern India last week.

The controversies dominated the resumption of Parliament after a recess. Most opposition members walked out of the lower house when they failed to win agreement for an immediate debate on the controversial IMF loan. They said they wished to censure the government for bypassing Parliament in concluding the loan.

Paris Senate Rejects Nationalization

Reuters

PARIS — The French Senate on Monday rejected the Socialist government's nationalization bill, but the project is almost certain to be adopted in its final reading by the Socialist-dominated National Assembly. The bill would nationalize five major industrial groups and 36 French banks.

The Senate voted 184-109 to reject the bill, which was approved on first hearing by the Assembly last Oct. 26. It now goes before a joint Senate-Assembly commission before being resubmitted to both houses. If the bill is again accepted by one house and rejected by the other, it returns to the 491-member Assembly for a third and binding vote.

The Socialists hold an absolute majority in the Assembly and the bill should be adopted before the end of next month. Once the bill is adopted, opposition senators and Assembly deputies are expected to ask the Constitutional Council to rule on its conformity to the Constitution.

Turkish Premier Hardens Response to Critics Abroad

bidding public criticism of its policies. Now living at home in Ankara under police surveillance, Mr. Ecevit has received wide support from Socialist leaders and intellectuals throughout Europe.

A senior Western diplomat here predicted that Mr. Ecevit's jailing will become "a bombshell in Europe, mainly in Germany."

Maintaining that the former premier had broken the law and that he had been tried by independent courts established before the coup, Mr. Ulusu made clear that the regime was prepared to live with such reaction.

"We will just have to wait and see what kind of reaction there is Europe and here," the premier said.

Commenting on international issues during the interview, Mr. Ulusu also said:

- Although relations with the Reagan administration were excellent, he called for increased U.S. economic and military aid in the next several years as well as "closer contacts" between top U.S. and Turkish leaders.

The Reagan administration is proposing a Turkish aid package for fiscal 1982 of approximately $702 million, $402 million of it for military purposes. Mr. Ulusu and other Turkish leaders said they would like to see that package increased substantially during the next several years, in part so that Turkey's armed forces can be modernized.

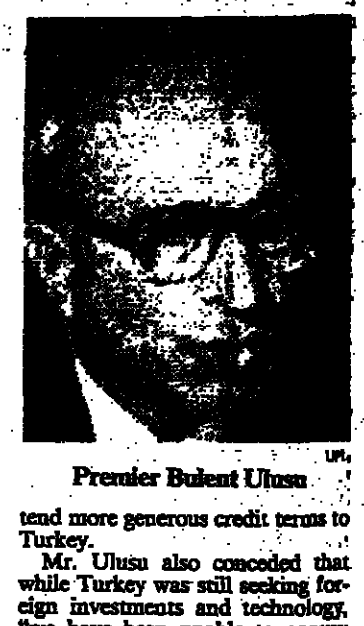
- Turkey still has no immediate plans for seeking full Common Market membership, but will do so "as soon as democracy is established," the premier said. "It is fully understood by Turkey that this accession is a difficult matter and that it requires time and mutual efforts," he added.

Mr. Ulusu and other Turkish officials said that full EEC membership would be linked to progress in the government's economic recovery plan aimed at modernizing Turkish industry, which was launched under the previous government of Suleyman Demirel.

- The premier said the nation's economy was experiencing a "miraculous" recovery. Inflation had dropped from 100 percent last year to 40 percent and this year's gross national product is expected to grow approximately 4.4 percent, he said.

But Mr. Ulusu also expressed disappointment at the reduction in the aid being provided to Turkey by members of the Organization for Economic Cooperation and Development. Key industrialized countries in the 24-nation group will provide a total of approximately $1 billion this year, $100 million less than in 1980.

The premier did not identify the countries. He did say that he also would like the governments and banks in the organization to extend more generous credit terms to Turkey.



UPI

Premier Bulent Ulusu

Mr. Ulusu also conceded that while Turkey was still seeking foreign investments and technology, "we have been unable to convey the present realities of our country to foreign investors."

Defense Minister Haluk Bayulken, in a separate interview, said he was exploring the possibility of building a joint U.S.-Turkish arms manufacturing complex in Turkey. He said it could produce sophisticated tanks and combat aircraft, some of which could be exported, and that initial contacts had been made with several interested U.S. defense contractors.

That plan and related issues will be discussed during a visit to Turkey next month by Defense Secretary Caspar W. Weinberger, he said.

Thousands Back Paisley

(Continued from Page 1)

said: "This is Ulster's D-Day — Ulster's deliverance day."

Fears of trouble were heightened by the arrest Sunday of three members of the Ulster Defense Association, the biggest private Protestant army, in a truck loaded with explosives outside Newtownards.

Northern Ireland's million Protestants, who outnumber the province's Roman Catholics 2 to 1, also are seeking the end of the IRA wave of violence, including the slaying Nov. 14 of the Rev. Robert Bradford, a Protestant member of the British Parliament.

"This stoppage is going to show Mrs. Margaret Thatcher that the people of Ulster have had enough, and they cannot take any more," said Mr. Paisley. He predicted "the entire Loyalist community" would back his "day of action."

But the Official Unionist Party, the rival of his Democratic Unionist Party, the 15,000-man Ulster Defense Association and Archbishop John Armstrong, the primate of the Church of Ireland, the largest Anglican denomination, all opposed his tactics.

Meese Defends Actions Of Allen Investigators

By Howell Raines
New York Times Service

WASHINGTON — Edwin Meese 3d, the White House counselor, says there were no plans for Richard V. Allen to resign and he asserted that both White House and Justice Department officials had been "scrupulously" correct in their contacts during the investigation into a $1,000 payment to Mr. Allen, the White House national security adviser, by a Japanese magazine.

Mr. Meese, in a television interview on Sunday, acknowledged that the Allen controversy may "do some damage" to the Reagan presidency. "We hope it won't be a great deal of damage," he added, promising that the Justice Department inquiry must either "totally clarify and absolve" Mr. Allen's behavior or "appropriate action will be taken."

Meanwhile, Justice Department officials confirmed Sunday that three top assistants to Attorney General William French Smith met Friday with William H. Webster, director of the FBI, and criticized the quality of the FBI's investigation of Mr. Allen.

Justice Department officials called for a renewed investigation of Mr. Allen because of evidence found in Mr. Allen's safe indicating he might have received $10,000 rather than $1,000, The New York Times reported Sunday, quoting an administration official who asked not to be identified.

Call Considered Unauthorized

The same official said Mr. Webster made what Justice Department officials consider an unauthorized phone call to Mr. Allen to assure him that the Japanese involved in the exchange corroborated his account that only $1,000 had changed hands.

Mr. Meese, however, said that Mr. Webster's contact with Mr. Allen was proper.

Sunday, in Tokyo, executives of the Japanese magazine, Shufunotomo (The Housewives' Companion), asserted that the payment was $1,000. "That is all Shufunotomo paid for the interview; there were no other payments," said Katsuro Ishizuka, editor of the magazine.

The administration official said the renewed FBI inquiry, which could lead to the appointment of a special prosecutor, will seek to determine why the figure $10,000 appears to be written on both the envelope found in Mr. Allen's safe and on another document, "some kind of receipt," discovered there.

Business Contacts

The matter first became public on Nov. 13, when Japanese newspaper reports reached Washington that U.S. officials had asked Japanese investigators to help explore the $1,000 payment to a White House official who had business contacts in Japan.

Mr. Allen, who has represented the makers of Datsun as a private consultant and met last spring with a high official of Toyota at the White House, then admitted receiving the money. He said that he took the money after three women representing the magazine said they wanted it to go to Nancy Reagan as an "honorarium" for granting them an interview on Jan. 21.

Mr. Allen has said he received the money to avoid putting Mrs. Reagan in an embarrassing position and, at the same time, to avoid offending the women by refusing what Mr. Allen said Japanese journalists regarded as a customary payment.

In the past week, a series of misstatements by the White House and new disclosures about Mr. Allen's activities raised the matter to the level of a major concern in the administration. Administration officials said that two of Mr. Reagan's top aides, James A. Baker 3d, the White House chief of staff, and Michael K. Deaver, the deputy chief of staff, were leaning toward the view that Mr. Allen might have to resign for the good of the president, whatever the outcome of the investigation.

To Anderson, Stockman's Up to Old Tricks

By Francis X. Clines and Bernard Weinraub
New York Times Service

WASHINGTON — Former Rep. John B. Anderson, the once and, perhaps, future candidate for president, returned from India last week and experienced the shock of déjà vu as he caught up with the tale of David A. Stockman's confessional use of journalism.

Amateur psychologists all through the capital are still speculating on just what sort of self-destructive or Machiavellian impulse might have driven Mr. Stockman, the president's budget director, to build a separate record of startling candor and doubt with a magazine interviewer, even as he publicly directed the administration's budget program. Mr. Anderson, who gave Mr. Stockman his big start in politics, leans decidedly toward a Machiavellian theory.

"It was in 1975 and David Stockman was executive director of the House Republican Conference, working for me, in effect, since I was chairman," Mr. Anderson, a Republican from Illinois, recalled. "Without my knowledge, he contracted with the magazine Public Interest to do a piece that drew a great deal of attention by undertaking to savage a number of the positions that I, myself, happened to hold."

Instinct for Attention

That article, "The Social Pork Barrel," was a striking statement along neoconservative lines that Mr. Anderson finds instructive now, six years later, not so much for its philosophical holdings as for its measure of Mr. Stockman's great instinct for attracting attention. "He's a young man who wants to be sure he's out front and far from hiding his light under a bushel."

That article helped launch Mr. Stockman on his own into elective politics, and he won a Michigan congressional seat the following year, Mr. Anderson noted. Is it somehow possible that this latest instance of Mr. Stockman's vividly broadcasting his views might lead, as some speculate, to his running for governor or senator from Michigan next year? Mr. Anderson thought that over for a minute.

"I would not underestimate that Machiavellian guile of this young man," Mr. Anderson replied rather cheerfully, as if there may, indeed, be a pathology to everything in politics.

As for his own self-promotion, Mr. Anderson noted that he currently had a fund-raising committee, the National Unity Campaign Committee, that is registered with the Federal Election Commission and that provides a handy "holding pattern" as he makes overseas trips and continues to lecture on politics around the nation. The committee, he said, mainly raises money to keep up to date his master list of 250,000 contributors he won over in his 1980 independent run for president.

The question of deciding whether to run again is a bit off in the future, he said. "I must be properly demure, as Walter Mondale says," Mr. Anderson commented. He agreed, however, that there is "a certain perspicacity" in the suggestion that it would be extraordinary if he kept alive a list of 250,000 contributors with a staff of five merely to announce eventually that he would not run again for president.

As U.S. Criticism Rises, Nicaragua Moves Closer to Russians, Arabs

By Christopher Dickey
Washington Post Service

MANAGUA — While criticism from Washington grows sharper and more bellicose, Nicaragua is steadily strengthening a broad range of ties with the Soviet bloc and with such revolutionary Arab states as Libya.

While the Sandinista government here is avowedly Marxist oriented and describes itself as "internationalist," observers see this trend in relations as more the product of desperation than a natural affinity with its new allies.

The guiding principle behind these links, although never so explicitly stated by the Nicaraguans, appears to be based on the old idea that "the enemy of my enemy is my friend."

The Sandinistas have suspected Washington since the days of its support for the Somoza dictatorship of being their worst enemy, and in recent weeks the Reagan administration's public statements have had the effect of confirming that belief.

Lull Is Over

Despite a visit here in August by Thomas O. Enders, the assistant secretary of state for inter-American affairs, and an ensuing lull in the verbal war, those attacks have now resumed as Secretary of State Alexander M. Haig Jr. and other high U.S. officials repeatedly have denounced the Sandinistas and refused to rule out military action against them.

To back up its words the Reagan administration recently derailed a desperately needed $30-million loan to Nicaragua by the Inter-American Development Bank.

Nicaragua has replied by denouncing the Reagan administration for what it terms "aggressive adventurism," and at the same time has turned to the East. The Sandinistas have firmed up their long-standing ties to Cuba and have gone beyond those to embrace the Soviet Union, its European allies or anyone else at odds with Washington.

As the Reagan administration draws up a kind of international enemies list ranging from President Leonid I. Brezhnev of the Soviet Union to Fidel Castro of Cuba to Col. Moamer Qadhafi of Libya, that is where the Sandinistas look for friends.

Biggest U.S. Concern

Nicaragua still depends on Western countries, especially Mexico and Europe for much of the economic aid it receives. Even as Defense Minister Humberto Ortega visited Moscow last week, Agriculture Minister Jaime Wheelock was seeking money and moral support in Bonn.

But of most concern to the United States are Nicaragua's growing military ties to avowed enemies of Washington.

Both Nicaraguan officials and diplomatic sources say there is no firm evidence of foreign troop concentrations here or large shipments of military aircraft from Soviet allies to Nicaragua. But more than 50 Nicaraguan pilots trained to fly MiG fighters are now returning from Bulgaria and other Eastern bloc countries, according to the sources.

East German, Cuban and other military advisers trained by Soviet allies are reported in large numbers on Nicaragua's troubled Atlantic coast, and, according to a well-informed Sandinista official, they also have a strong presence in the military headquarters in Managua.

Both the Army's Sector 2, military security, and Sector 5, secret plans, have a particularly large number of advisers, the officials said while declining to give specific figures.

Arms have been supplied to the Sandinistas by the Soviet bloc, Algeria and Libya as the government here continues the rapid buildup of its military. But the current estimated strength of the regular Army remains about 25,000 soldiers and the militias, a strictly defensive force, have not yet enlisted 100,000 people despite Sandinista hopes for twice that number.

Looking for Help

Beyond the military links that have developed gradually over the last two years, a totally new element in Nicaraguan life is the overt presence of propaganda from the Soviet bloc and even Libya, often making a curious mix with Nicaraguan traditions and the long-standing orientation toward American culture.

On Managuan news stands in addition to U.S. comic books and magazines, one finds Col. Qadhafi's "Green Book," "Soviet Life," and "Soviet Film."

The Nicaraguan foreign minister, Miguel D'Escoto, points to his country's desperate economic situation and the perceived threats against it as the reason for Nicaragua's ties to the Eastern bloc and Libya.

Nicaragua needs help anywhere it can find it and to that end Mr. D'Escoto is already planning another trip to the Middle East in January. Nicaragua is seeking aid from Libya and the Arabs precisely because it does not want to depend on the Russians.

As a Libyan official here said in English, "We are not Brezhnev. But we all know the U.S. is the great enemy."

Spanish Drivers Punished

The Associated Press

MADRID — The national traffic board on Monday suspended for three months the driver's licenses of 1,500 motorists and fined them 20,000 pesetas ($210) each for honking and disrupting traffic Sunday during rally marking the sixth anniversary of Franco's death.

Venezuela Asks Where Oil Bonanza Went And Takes Steps to Deal With a Recession

By Juan de Onis
International Herald Tribune

CARACAS — Seven years of oil bonanza have come to an end in Venezuela with many complaining that huge investments of petrodollars to expand the economy have not improved real incomes or the quality of life.

"The oil bonanza? I didn't see any. It all went to the 20 percent at the top," said Luis Aviles, 32, who thought that he had a great opportunity six years ago.

Mr. Aviles quit his job in a big bank's parking garage and collected $6,000 in severance pay under a law passed in 1975 to give workers "stability." He invested in his own auto repair shop and felt "independent," he said. But now business is bad, prices are high and Mr. Aviles, with a wife and three children, is looking for a government job.

The feeling of frustration is widespread, heightened by a recession and growing unemployment. Businessmen are also depressed. There are still appearances of extravagant consumption in whisky and beer sales, trips to Miami and Paris, and full tables at elegant restaurants. But sales of automobiles and household appliances are slow. Construction is depressed. After reaching a high plateau, the economy has stagnated.

Venezuela's per capita income of about $2,500, excluding oil export income, is about the same, when adjusted for inflation, as it was in 1974 when the oil boom began.

But how can a country spend the enormous financial resources derived from exports of two million barrels of oil a day, at ever increasing prices over seven years, and wind up with a recession and widespread public disenchantment?

From all indications, Venezuela tried to do too much, too fast, with insufficient human resources and inadequate organization. As a result, it is now suffering from a bad case of economic indigestion.

The problem of absorption was not apparent at first when the petrodollars began to roll in after OPEC quadrupled prices at the end of 1973. Former President Carlos Andres Perez, the first of the big spenders, doubled public spending in each of his first two years in office. The economy surged, with real growth averaging 5 percent a year per capita between 1974 and 1977.

But by 1978 the overheated economy was giving distress signals. Price controls and ever increasing consumer subsidies could not fully offset inflationary pressures. Projects involving billions of dollars in investment encountered delays and huge cost overruns. Private investment dwindled and real growth began to decline.

This was the situation when the voters rejected the incumbent Democratic Action party and elected President Luis Herrera Campins of the Social Christian Party, who promised to moralize the public administration, reduce inflation, free the economy of state controls and emphasize human needs in development spending.

The new administration, in what may have been a serious miscalculation, moved to "cool off" the economy and reduce inflation by cutting back on public spending and tightening credit. At the same time, in an attempt to stimulate private sector production, price controls were lifted on some consumer goods and construction materials.

The result was a 20 percent increase in the cost of living last year after union pressure forced Congress to pass a mandatory wage increase over the government's objections. Tight credit and market uncertainty brought an even steeper decline in private investment, which fell 33 percent from 1979. The recession took hold with a 1.2 percent decline in gross domestic product last year, according to the central bank.

The stagnation of the domestic economy has continued this year despite another big increase in oil income last year that provided the government with $13 billion in fiscal revenue. The administration increased current government spending this year by an estimated 25 percent, part of which is to pay for 170,000 new public employees hired by this government.

The paradox of Venezuela's dual economy is that, while the externally oriented oil sector increases revenues, the government can maintain an appearance of economic well-being by allowing $11 billion in imports last year, handing out thousands of government jobs, maintaining cheap consumer prices by billions in subsidies and covering the huge deficits of state enterprises. But the domestic economy does not grow.

Minister of Finance Luis Ugueto and other economic advisers to President Herrera believe that the private sector should be freed from excessive government controls and that prices should be determined by supply and demand. At the same time, Mr. Ugueto has made the reduction of inflation a major goal, and the cost of living for the first nine months of this year rose 9.8 percent, well below the annual rate of 20 percent last year

The budget proposal for next year calls for $18.9 billion in spending, which is about the same as this year. An estimated $2 billion decline in fiscal revenue from oil is offset by an increase of $1 billion in internal tax revenues and larger investments by the Venezuelan Investment Fund. This state agency has about $5 billion in surplus oil income set aside for investment in long-term internal projects.

Diplomats to UN Assembly Complain of the Old Refrain

By Bernard D. Nossiter
New York Times Service

UNITED NATIONS, N.Y. — A spokesman for Kurt Waldheim complained recently that the American press had devoted so much space to the race for secretary-general that it had virtually ignored the General Assembly.

This, said Rudolf Stajduhar of Yugoslavia, a UN spokesman, was causing "uneasiness" in Mr. Waldheim's 38th-floor office and also among delegates.

Many envoys here, however, complain that this year's assembly is notable chiefly for its overly familiar debates. Virtually all 126 items on the agenda have produced almost identical resolutions and votes for three or more years.

One new item, a condemnation of Israel's destruction of an Iraqi nuclear reactor, was debated at length in the Security Council in June. For good measure, Ismat Kittani of Iraq, the assembly's president, arranged the calendar so that the assembly could deal with it twice in three days.

These are some of the old standbys that are back again this year:

- The question of Palestine, which will lead to an overwhelming vote favoring the establishment of a Palestinian state.
- The situation in the Middle East, ending in a demand for Israel to leave the territories occupied since the 1967 war.
- The question of Namibia, urging independence for South-West Africa and sanctions against South Africa.
- The policies of apartheid of the government of South Africa, again urging sanctions.
- The situation in Afghanistan, calling for the withdrawal of foreign, meaning Soviet, troops.
- The situation in Cambodia, calling for the withdrawal of foreign, meaning Vietnamese, troops.

Some of the deepest concerns here are discussed only in corridors, not on the assembly floor. Among them are the Soviet threat to Poland, a topic regarded as too delicate for debate, and Iraq's continuing war with Iran.

Any country can propose an item for the agenda, but most are reluctant to do so unless they are assured of a majority that will serve their political ends.

These reappear year after year through a simple formula. Typically, the culminating resolution requests the secretary-general to make a report on Israelis, Cambodians, South Africans or Afghans and deliver it to the next General Assembly.

The Asian and African members frequently demand self-determination, particularly for groups they say are oppressed by nations outside their borders. As a result, the two regions lead the cry for the rights of Palestinians against Israel and Namibians against South Africa. The two continents, however, appear far more tolerant of apparent oppression by one of their own.

There was a test earlier this month when an assembly committee debated a resolution urging "the right to self-determination by the people of East Timor."

East Timor, part of the Malay archipelago, was a Portuguese colony until 1975. When the Portuguese left, Indonesia moved in with soldiers, planes, napalm and tanks. The troops are still there, fighting the guerrillas of Fretilin, a Portuguese acronym for the Revolutionary Front for an Independent East Timor.

At the UN, Fretilin's representative, José Ranos-Horta, works with other former Portuguese colonies such as Angola to win political support for his guerrillas.

In the latest vote, Mr. Ranos-Horta won by a tidy majority, 58-40. But, except for Algeria, every Arab nation that took a position voted against him. Indonesia is Moslem, and religion was thicker than principle. The United States, which admires Indonesia's oil and anti-Communism, also backed Jakarta.

Anti-Tax Leader In Denmark Gets 4-Year Jail Term

The Associated Press

COPENHAGEN — Mogens Glistrup, the anti-tax party leader, was convicted Monday of large-scale tax evasion Monday and sentenced to four years in jail.

Mr. Glistrup, 55, a lawyer and leader of the Progress Party, said he will appeal to the Supreme Court. The seven-year trial was the longest in Danish history.

The Copenhagen High Court changed a 1978 lower court conviction from tax evasion to gross tax evasion, sentenced Mr. Glistrup to the maximum prison term, stripped him of his right to practice law for the rest of his life and leveled fines, retroactive tax payments and legal costs totaling more than 7 million kroner [$1 million].

He was convicted of gross tax evasion through a pattern of fictitious lending and borrowing transactions among more than 2,700 companies set up to help him and 20,000 clients reduce their taxable incomes, often to zero. His political movement is based on the ideology that "tax-cheating is patriotism."

The sentencing came two weeks before national elections called earlier this month by Premier Anker Joergensen of the Social Democratic Party. In 1973, Mr. Glistrup's party won 28 seats in the Folketing (parliament), but has lost six seats in subsequent elections.

U.S. Envoy Arrives in Paris

The Associated Press

PARIS — Evan G. Galbraith arrived Monday to begin his duties as the 26th U.S. ambassador to France.

Union Assails Brazil For 'Denial of Rights'

Reuters

GENEVA — The jailing of 11 Brazilian union leaders after a strike was condemned here Monday by the International Metalworkers' Federation as "an outrageous denial of trade union rights."

Metalworkers' leader Ignacias da Silva and 10 other union leaders were sentenced to jail last Thursday for encouraging a strike which paralyzed Brazil's automobile industry for 41 days.

Harry von Zell, Radio Announcer In U.S., Dies at 75

Los Angeles Times Service

HOLLYWOOD — Harry von Zell, 75, an actor and comedian best known as one of the rich-voiced announcers of radio's golden years, died Saturday of cancer.

During the last two decades, Mr. von Zell had been familiar as the spokesman for the Home Savings and Loan Association. From 1950 to 1958 he played a leading role in "Burns and Allen" on television. In the 1930s and 1940s, Mr. von Zell was the announcer on as many as 20 radio shows a week. Among them were programs starring Eddie Cantor, Fred Allen, Phil Baker, as well as "Stoopnagle and Bud," "The March of Time," "Henry Aldrich," "The Amazing Mr. Smith" and "Ben Bernie."

Mr. von Zell also made a memorable "blooper" on nationwide radio in introducing the U.S. chief executive. "Ladies and gentlemen," Mr. von Zell intoned solemnly, "the president of the United States — Hoobert Heever."

William Rosenblatt

NEW YORK (NYT) — William Rosenblatt, 88, a financier and a director and organizer of many companies, died Sunday. He was a founder and director of the Postal Telegraph and Cable Co., which merged with Western Union after World War II.

U.S. Nuns Missing In Guatemala

The Associated Press

GUATEMALA CITY — The U.S. Embassy says it has asked the government to look for two U.S. Roman Catholic nuns, a Guatemalan priest and a seminary student missing since they left on a short automobile trip in western Guatemala Thursday.

Martin Ronan, an embassy spokesman, said Sunday night that church officials in Solola province notified the embassy Saturday after Father Jose Velasquez, Sisters Jean Reimer and Helen Lavaliey of Grand Rapids, Mich., and the unidentified student failed to keep appointments in the area.

Nine priests have been killed this year in Guatemala. They are believed to be victims of the violence between leftist guerrillas and rightists and government security forces.

INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
Page 4 Tuesday, November 24, 1981

Ulster's Passions of Fear

The angry Protestants who threaten to make Northern Ireland "ungovernable" could do just that. Twice before, in 1914 and 1974, they have risen against British governments and forced a fundamental change in British policy. By promoting Monday's protest strike, hard-liner Ian Paisley is reminding Britain that the armed Protestant majority is capable of nullifying any concessions to the province's Catholic minority.

It is a reminder as well that there is no quick fix for Ulster's agony.

Protestant Unionists have genuine cause for anger. After the failure of its prison hunger strikes, a frustrated Irish Republican Army has loosed a savage bloodletting. Its guns have claimed civilians as well as soldiers, the obscure as well as the prominent. Until the terror abates, there cannot be even a semblance of rational diplomacy. If ending it requires more troops, then Britain is right to send them. But what is more likely to foil the IRA is revulsion among Northern Ireland's 500,000 Catholics.

One of their leaders, John Hume, condemns the IRA campaign as "sectarian genocide" against Protestants. The killings strip the romance from incendiary fanatics, who can be seen as stealthy murderers and implausible martyrs.

But there is another source of Protestant wrath: ongoing talks between London and Dublin, which have yielded a plan for an Anglo-Irish council. The plan remains embryonic, and both governments agree that only by mutual consent can the predominantly Protestant North ever be united with the mainly Catholic South. But Paisley scents betrayal. He all but calls for the head of James Prior, Britain's new secretary for Northern Ireland, a liberal-minded Conservative.

In assailing Prior, Protestant hard-liners put themselves in a peculiar position. They preach loyalism but come close to encouraging sedition. And by claiming a veto over Britain's relations with the Irish Republic, they place themselves above the nation that has committed money and blood to defend them. These unreasoning attacks strain the very tie that Paisley wants to endure forever.

If these passions are unreasoning, the fears that feed them are real. By all means let Britain press for a more open border between the two Irelands, and for the political rights of the North's Catholic minority. Sheer weariness after a decade of violence may yield an opening for change. Belfast's stricken economy, its appalling level of unemployment, could also give scope for statesmanship.

What cannot be forced is the pace of history. This is a time for a truce, not a breakthrough. Impatient Americans would be wise to expect no more.

THE NEW YORK TIMES.

Reagan and the AFL-CIO

In a fiery speech before the AFL-CIO's constitutional convention in New York last week, the federation's chief, Lane Kirkland, widened the distance between organized labor and the Reagan administration. Even as the delegates applauded, however, the administration was making new overtures to the labor movement. President Reagan directed the heads of federal departments and agencies to consult with labor on policy matters, and invited labor leaders to confer with him next month.

This leaves the AFL-CIO's leaders with a tricky choice. Should they continue the federation's drift toward closer alignment with the Democratic Party, or begin to do serious business with the party in power?

Organized labor has found new unity in recent months in its opposition to the Reagan economic and social policies. Solidarity Day was a big success for Lane Kirkland's efforts to make the labor movement a more aggressive and potent force on the political scene. You can't take to the streets very often, however, and keeping the spirit of protest alive may require something that neither labor nor the Democrats currently have — a platform that responds to the changing needs and attitudes of the rank and file.

A substantial minority of union members voted a year ago for Ronald Reagan. Among those workers that organized labor might hope to recruit in the future, Republican support, or at least conservative leanings, may well be still stronger. Perhaps some of those workers have changed their minds since last November, as the details of the president's program became clearer. Nonetheless, the feeling that the old policies weren't working was a real one, and it needs attention.

This is not to say that every element of discontent among labor's ranks deserves consideration. The labor movement has rightfully prided itself on leading its membership in some directions — notably toward civil rights and social welfare concerns — that the membership might otherwise have been reluctant to take. But Union members are better educated and more sophisticated than they were a generation ago. They want different things from their jobs, and they are more aware of the real limits placed on their demands by a stagnating economy, shifts in the structure of industry and international competition.

As labor's leaders come down to the specifics of how to address those concerns and generally advance labor's cause on the political scene, they are likely to realize that they will need some help from the federal government even if Ronald Reagan happens to be running it. Many issues important to labor are more a matter of good public policy than of partisan politics. Lane Kirkland recognized that two weeks ago when he called upon the government to help organized labor root out crime and corruption in its ranks. The AFL-CIO and the administration might well use that overture as a basis for exploring any common ground.

THE WASHINGTON POST.

On Music and Money

The National Symphony has ended its fiscal year in the black — a hopeful sign, and highly unusual. For most of its long life, the orchestra has teetered along the brink of financial collapse. The quality of performances has risen to a high level in the last few years, but quality, in music as in most other things, does not come cheap. Resources lagged behind. A year ago the orchestra was still running its customary large deficit.

Fund-raising has been, in the past, peculiarly difficult in Washington. Average incomes are high, but because it is not an industrial city Washington has not produced the great blocks of wealth that endow universities, museums and orchestras. There have been notable exceptions, but generally speaking the traditional methods of recruiting support for the arts have worked badly. The orchestra's recent success reflects interesting changes not only in its fund-raising strategy, but in the economy of Washington as well.

In the past decade there has been a rapid increase in the number of business corporations with substantial operations in Washington. The orchestra has been in touch with a good many of them with the help of the Third Sector Project, a nonprofit organization whose purpose is to help other nonprofit organizations in the struggle to balance their books. Corporations, and accounting and management firms, first donated analysis and advice in the areas in which they are skilled — marketing, organization and financial planning.

Ticket sales rose. Private contributions from ticket-holders rose. Then corporate contributions rose. That is the sequence in which it usually goes, since corporations' donations rarely reflect one person's taste but rather require a showing of public support. That, incidentally, is why individual gifts are important even when they aren't large.

You cannot say, unfortunately, that the National Symphony's financial troubles are over. The past year's income included a federal contribution of $1 million that is not likely to be repeated. The orchestra's budget, like all budgets, rises with inflation, and ticket sales cover less than half of it. But the current progress is promising.

THE WASHINGTON POST.

Other Opinion

Deterrence and European Security

Europe does not owe its longest period of peace in this century — 36 years so far — to pacifism, disarmament, politically slanted peace appeals, neutralism, diplomacy or policies of détente, but to deterrence. In other words, to a convincing capability to make an armed attack an intolerably high and incalculable risk for an aggressor. Here is a fact that must be borne steadfastly in mind in resisting the illusions and hysteria of the suicidal public debate that is now threatening to undermine this fundamental pillar of European security.

— From the Neue Zürcher Zeitung (Zurich).

For Negotiations on Afghanistan

The UN General Assembly's call for immediate withdrawal of Soviet troops from Afghanistan is no doubt embarrassing to Moscow, but what purpose does it serve? The sooner negotiations start the better for all concerned.

— From the Indian Express (Delhi).

Nov. 24: From Our Pages of 75 and 50 Years Ago

1906: Collision at Cherbourg

CHERBOURG — As the ship Kaiser Wilhelm der Grosse was leaving Cherbourg for New York Wednesday, she came into collision with the Orinoco, of the Royal Mail packet company. The Orinoco, bound for the West Indies, was coming from Southampton to call at Cherbourg when the Kaiser Wilhelm struck her starboard bow and crashed through into the forecastle, ripping such a hole in her that the Orinoco could not continue her voyage. On board the Kaiser Wilhelm, four third-class passengers were killed and about eight injured. There was an alarming panic on board, especially among the emigrants. The Orinoco lowered a boat filled with women.

1931: German Editor Jailed

BERLIN — Carl von Ossietzky, editor of the liberal weekly Die Weltbuehne (The World Scene) and one of the most brilliant of German journalists, has been sentenced to six months in prison by the supreme court at Leipzig for betrayal of military secrets. Ossietzky's offense consisted of permitting an article by the German air pilot Walter Kreiser, who received a similar sentence, to be published in his periodical, criticizing the Reichswehr military budget. Kreiser denounced the swollen estimates of the German defense ministry, and hinted that it is spending more for armaments than either the German taxpayers or the outside world are permitted to know.

Attention Shifts From Arms to Arms Talks

By Flora Lewis

BONN — President Ronald Reagan said the right things on war and peace last week, and just in time. Soviet leader Leonid Brezhnev arrived in Bonn Sunday night facing a new pressure to respond, after nearly a year of posing as the peace champion while Washington sounded increasingly belligerent to European ears.

The damage that had been done in terms of European opinion should not be underestimated. The Western alliance depends on consensus, because democratic governments depend on public opinion. Rhetorical exchanges are indeed a propaganda war for the Russians because they needn't worry about voters or demonstrators at home or among friends.

But American statements are much more important. They affect the politics and thus the decisions of the allies. That, in turn, affects the security of the United States, as well as Europe, in as direct a way as the American defense budget.

A little balance has been restored on the political scale even though the military balance has not yet been touched. It is right to warn against any hope for quick progress in the four sets of negotiations Reagan foresees: on conventional forces in Europe, medium-range nuclear weapons, intercontinental missiles, and ways to diminish the risk of surprise attack or war by miscalculation.

But Reagan's speech made very substantial progress on a key issue, if it meant what it seemed to mean in a little-noticed passage.

"Preservation of peace in Europe and the pursuit of arms reduction talks are of fundamental importance. But we must also help to bring peace and security to regions now torn by conflict, external intervention and war," he said.

That is the old question of "linkage," and it goes to the heart of fears that have been building in Europe. Since the Soviet invasion of Afghanistan in 1979, the United States has taken the stand that arms control is a kind of concession to the Russians, to be offered only in return for an end to their activity outside the Communist bloc.

Unlinkage

Former Secretary of State Cyrus Vance and a few others demurred, saying limiting the nuclear arms spiral was just as much in the interest of the United States and shouldn't be tied to other, less direct forms of East-West rivalry. But the dominant theme, especially in the Reagan administration, seemed to be that America wasn't interested in dealing seriously with Moscow about anything until it had a whole new range of weapons — which Moscow said it would match.

This kind of talk led to a tendency of equating superpowers, and thus to neutralism. Chancellor Helmut Schmidt of West Germany has not been immune from that reaction himself, even though he threatened to resign if negotiations fail to bring withdrawal of Soviet weapons and his countrymen nevertheless refuse new U.S. missiles.

The exercise put West Germany in a new position, at once the apparent lever that pried open the door for Moscow to talks with the United States, and the most promising lever for Moscow to achieve its old ambition of prying Western Europe away from Washington.

The extent of drift is reflected in Schmidt's disclaimer that he wants to be "middle man" between Brezhnev and Reagan. He only wants to be "interpreter." That shouldn't be needed if Reagan is really saying now that the United States wants arms reduction for America's sake as well as to ease European fears, and is putting dangerous but secondary issues in second place.

Serious arms reduction talks will require fundamental review of American and NATO strategy and how it must adapt to Soviet achievement of nuclear parity. They will also lead to important questions on Soviet doctrine, which Moscow has been able to avoid in the period of polemics and arms buildup.

Brezhnev says the Soviet Union would never use nuclear weapons first, and at the same time that any country that deploys American weapons automatically risks Soviet attack. He doesn't mean it would be targeted after the missiles have been launched. There is a contradiction here.

These are issues the United States and the Russians must discuss. Once they do, the doubts about U.S. intentions for peace should be easier to dispel. The repellent idea that equal efforts to expand their arsenals make the superpowers equal in other ways, including moral and political attraction, was fed by the focus on the arms race.

Propaganda plus weapons was to the Soviet advantage. Weapons without a clear policy of negotiation and coexistence were not advancing the Western cause. The United States, by the nature of its system, cannot succeed at being two-faced. Unlike Moscow, it must do what it says and say what it does. But that is a strength, not a weakness. If Reagan pursues the policy he has at last proclaimed, that should soon begin to show.

©1981, The New York Times.

Seeing Western Strategy as 'Naive to the Point of Absurdity'

By Anthony Lewis

BOSTON — President Reagan has set out the U.S. position for his administration's first arms control negotiation with the Soviet Union, due to start Nov. 30 in Geneva. The subject is theater nuclear forces, as they are called: nuclear weapons systems based in and designed for use against Western Europe and European Russia.

In advance of those negotiations, two important British voices have challenged the fundamentals of Western nuclear strategy in Europe. Field Marshal Lord Carver, who is probably Britain's most eminent soldier today, spoke of an "unrealistic and suicidal concept." Professor Michael Howard of Oxford, a leading military analyst, said some Western strategic thinking was "naive to the point of absurdity."

The Carver and Howard comments, made in lengthy letters to The Times of London, should be considered by all the American politicians and diplomats and military men who deal with nuclear arms questions. The two Britons throw fresh light on the hot current issue of whether to deploy new U.S. nuclear weapons in Europe — and on deeper questions.

Two years ago NATO decided to deploy on the ground in Europe 572 medium-range missiles that could hit the Soviet Union: Pershing-2 and Cruise missiles with thermonuclear warheads. They were to counter a new Soviet weapon, the SS-20, a mobile missile that can reach Western Europe and is already on station in large numbers.

But the Pershing and Cruise missiles have not yet been deployed, and they have become an extremely difficult political problem for European governments. They are a principal target of the anti-nuclear demonstrations going on these days in several countries. Opposition to the new missiles in Chancellor Helmut Schmidt's Social Democratic Party could bring down the Bonn government.

Howard, in his letter, attacked the whole idea of "matching" the SS-20s with new American missiles in Europe as an unnecessary and divisive strategy. He said history would put it in the same eccentric category as the "multilateral force" proposed and eventually abandoned by Washington in the 1960s. That idea was to put nuclear missiles on ships manned by mixed crews from various NATO countries.

Only "meticulous pedants" believe that nuclear deterrence no longer carries conviction unless it is "precisely balanced at every level," Howard said. He said the United States had attached "exaggerated importance" to the views of a "very small number of European specialists" on the threat of the SS-20, just as the United States was led down the blind alley of the multilateral force by a misreading of European views.

"There is no consensus in the European defense community," Howard wrote, "and no sense among the European peoples as a whole, that the SS-20s present a threat of a new order of magnitude." He said they remain "a very small proportion of the enormous nuclear force that the Soviet Union is capable of launching against Western Europe."

He dismissed as "politically naive" the idea that "the Russians can only be deterred from attacking us by the installation of precisely matching systems — 'ground-launched missiles must be matched by ground-launched missiles.'" The true deterrent, he said, remains the whole network of American links to the European allies: military installations, the submarine-based nuclear force, economic and social ties.

Then Howard took on what has long been a premise of NATO strategy: that the West, because it is weaker than the Soviet Union in conventional forces, must rely on the first use of nuclear weapons to defend against attack on Europe. Howard called that doctrine "not only morally dubious but politically and militarily incredible."

That was the point at which Lord Carver directed his extraordinary letter. He condemned "the concept that an inadequacy in conventional forces can be compensated for by the threat to use, and, if the deterrence of that threat failed, actually [using] theater nuclear weapons in a first strike to counter a conventional invasion."

"That strategy had been incredible and irrational for over 20 years," Lord Carver wrote, "ever since the Soviet Union gained the capability to answer back in kind ... To initiate nuclear war would not redress or restore the situation; it would be an act of unredeemable folly."

Like Howard, Lord Carver emphasized the need for NATO countries to build up their conventional strengths. He warned that unless NATO abandoned its "unrealistic and suicidal" dependence on a nuclear response, "it will not set about putting its conventional house in order."

These days, U.S. spokesmen tend to dismiss many critical comments on nuclear weapons as softheaded or worse. Vice President Bush said last month that the rhetoric of anti-nuclear demonstrators was "oddly consonant with the editorial line" in Moscow. Lord Carver and Howard cannot be brushed off so crudely. Nor can their point that the real military problem of the West, in Europe and elsewhere, is conventional strength.

©1981, The New York Times.

The Ulster Protestant: Too British to Endure?

By Barry White

BELFAST — There were 40,000 cheering soccer fans at Belfast Windsor Park last Wednesday to see Northern Ireland beat Israel for a place in the finals of the World Cup in Spain next year. The only time they were silent was when it was announced that in London England had beaten Hungary. Yet only minutes earlier the same largely Protestant crowd had stood to attention to sing the British national anthem, "God Save The Queen."

Those two gestures illustrate in a nutshell the split personality of the Ulster Protestant. He feels British, because that is how he has been brought up, but he has learned that the British don't want him. So he remains true to his ideal of Britishness — the royal family — but shouts his defiance at all British governments.

The reason why he resents Westminster politicians is simple. In 1921 they gave him his own parliament when they partitioned the island into the six counties of Northern Ireland and the 26 counties of the Irish Free State (now the Irish Republic). But when the one-third Catholic minority, which never wanted partition, rebelled against the one-party Unionist government in the late 1960s and early 1970s, Edward Heath's conservative government took the Northern Ireland Parliament away in 1972.

Angry

Except for a five-month period in 1974 when the British set up a precarious power-sharing administration of Protestants and Catholics, Northern Ireland has since been ruled directly from London.

Direct rule would suit many Unionists in normal circumstances, since it dispenses with the need to give Catholics a role in an Ulster Parliament. But when the IRA is active, as it has been recently, it means that internal security against the gunmen who are shooting down Protestant members of the security force is in the hands of British politicians. Without power or responsibility the Protestants can only complain about government policy and stage angry demonstrations.

This is regarded by many Protestants as a demeaning position for people who, until a few years ago, could rely on wholehearted British support, and their sense of betrayal is widespread.

The Protestants were originally settled in the 17th century, like the early Americans, to pacify a rebellious province. They never intermarried with the native Catholics, and have been withstanding Irish nationalist attacks at regular intervals — with British help — since the 1790s. Only now that the nationalist cause is gaining ground in Britain, after 13 years of guerrilla warfare, does it look as if the British are looking for a way out.

The basis of the Protestants' predicament can be found in their majority-minority status. They are a majority — falling, but still 60 percent — in Northern Ireland, which was carved out for their benefit, but a minority on the island, by 1 million to 3¼ million. They are constantly being reminded, also, that they are a tiny minority in the United Kingdom, which now wants better relations with the Irish Republic.

In that context it is hardly surprising that normal politics have been impossible. The only issue in all elections is the existence of the state, so the results simply reflect the population bounds.

The Ulster Protestant feels that the whole world is against him — including the United States, which he sees as the main source of IRA guns and funds.

The unkindest cut has been the turnabout of the Conservative prime minister, Margaret Thatcher, who once declared herself "rock firm for the union" but is now seen as the arch destroyer. In the Protestant view, she has yielded to Irish nationalist pressure to bring Dublin into the discussions, introducing the ultimate Protestant fear of a sellout to a reactionary Catholic republic.

Apart

The Protestants reject any attempt to link them with the Republic except through trade or sports. Their politics have always been anti-Irish rather than pro-British. "Ireland" is a dirty word for many, and Unionist newspapers invariably refer to the Irish Republic or Eire, the Gaelic term. No one regards himself as "Northern Irish." Catholics are Irish and Protestants are British.

In Ulster the two sides have kept themselves strictly apart, partly for survival and partly to preserve their different cultures, the Gaelic Irish and the Protestant British. The Protestant working class has little experience of how the other lives, although it is much the same, and this is intensified by the separate school systems.

As the average Protestant sees it, the Ulster Catholic has little to complain about in a British welfare state paying high benefits to large families, and yet he appears to be in constant rebellion.

Determined

Assurances that neither the British nor the Irish desire any change in the constitutional position without majority consent do not lessen Protestant concern, nor does the Irish premier's promise to campaign to remove the Republic's claims to Northern Ireland from the 1937 constitution. The feeling remains that Britain is seeking a way of leaving its oldest colonized province — and Protestants are determined to make it as difficult as possible.

It is hard to say how much active support there is for Ian Paisley's plan to disrupt British rule in Ulster. There is a natural reluctance to rebel against Britain. Still, no one doubted that there would be a massive show of strength Monday, when Paisley had called for a work stoppage from noon to midnight.

Meanwhile, revolutionary forces are at work in the paramilitary Ulster Defense Association, which may take advantage of Paisley's protest movement to further their aim of negotiated independence for Northern Ireland. Few Unionists yet, including Paisley, take it seriously.

This time round, the British should be capable of handling the emergency and preventing the protest from escalating. But the British political will to bail out Ulster forever with troops and financial aid is weakening.

Barry White is an editorial writer for the Belfast Telegraph.

Letter

In Defense of British Workers

An article (IHT, Oct 15) unfavorably comparing the production of Ford Escorts in Britain with that in Germany and placing the blame on British workers needs to be placed in a proper context.

Ford production schedules are always a function of market demands. At the beginning of 1981, Ford Fiesta production at Dagenham, England, was only 70 per day. After a couple of months it picked up to 200 a day and by midsummer was running at 350 a day. Had British Ford workers miraculously become five times more productive over a six-month period? No, the answer lay in the fact that Ford became politically sensitized to the import of Escorts from its low-wage Spanish plant, coupled with a sharp increase in British demand. Dagenham's increase in production was a management decision.

The comparison between Ford British and West German wages also demands some thought. British wages are, in any case, one-third lower; but, more important, the cost of non-basic wage benefits in Germany approaches 80 percent of basic wages, and only 30 percent in Britain. The links between wages, non-basic wage benefits and productivity are complex. The only safe rule of thumb is that higher productivity permits higher wages, but higher wages can act as an inducement to workers to perform more effectively and equally encourage management to reorganize and modernize so as to increase productivity. In West Germany, labor costs as a percentage of sales costs are 28 percent, whereas in Britain they are only 23 percent.

The fact that Ford U.K. is a low-wage operation thereby guaranteeing easy profits is hardly likely to spur British management to increase productivity. Not that that stops Ford management from looking after itself: According to Ford's annual report last year, the number of employees in Ford U.K. earning between £20,000 and £65,000 rose from 162 in 1979 to 305 in 1980.

One might note in passing that Ford Europe, with its plethora of vice presidents, is located in Britain. Surely, with so much senior managerial expertise located on the spot, a better excuse than lazy workers could be produced?

Twenty years ago in the United States we were told that American workers were lazy compared with their European colleagues. Now British workers are scorned by an American journalist by comparison with their German equivalents. In West Germany, workers are told that they must work harder because Japanese workers are more energetic and committed to the company, while our Japanese unions are now being told that it is the Korean workers who must be emulated if Japan is to stay top of the export market. In short, blaming the worker is an international management pastime.

I notice that no articles celebrating the hardworking habits of British workers appeared when Ford announced that Britain would soon become the major source of Ford's new diesel engine for export to Europe and North America, nor when Ford opened a £180-million engine plant in Bridgend — again, hardly a sign of lack of confidence in British workers.

But then, the extremely skillful Ford public relations departments, whether in Britain, the United States or West Germany, are adept at encouraging articles aimed at softening up unions just prior to important negotiations.

I want to stress, as an American autoworker living in Europe and a member of the Supervisory Board of Ford, West Germany, that the British worker is as good as his or her colleague anywhere else in the world, provided there is the right investment and management backup.

HERMAN REBHAN.
International Metalworkers' Federation, Geneva.

INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post

John Hay Whitney
Chairman

Katharine Graham — Arthur Ochs Sulzberger
Co-Chairmen

Lee W. Huebner — *Publisher*
Philip M. Foisie — *Executive Editor*
Walter N. Wells — *Editor*
Robert K. McCabe — *Deputy Editor*
Stephen Klaidman — *Chief Editorial Writer*

Roland Pinson — *Associate Publisher*
René Bondy — *Director of Finance*
François Desmaisons — *Director of Circulation*
Richard H. Morgan — *Director of Advertising*

International Herald Tribune, S.A. au capital de 1,200,000 F. R.C. Paris No 73 B 2112. 179/181, ave. Charles-de-Gaulle, 92521 Neuilly-sur-Seine. Tel. 747-12-65. Telex: 612718 Herald. Paris Cables: Herald, Paris. Directeur de la publication: Walter N. Thayer. U.S. subscription price: $235 yearly. Second class postage paid at Long Island City, N.Y. 11101 © 1981 International Herald Tribune. All rights reserved. Commission Paritaire No 34 231.
General Manager, Asia: Alain Lecour, 24-34 Hennessy Road, Room 1801, Hong Kong. Tel. 5-28 56 18/9. Telex: 61170 IHTHKHX.
1980

East German Protestant Church Backs Call for Draft Alternative

By Harry Trimborn
Los Angeles Times Service

BONN — The East German Protestant Church, apparently emboldened by church-supported peace movements in the West, has taken up a call by disaffected youth for a "social peace service" as an alternative to East Germany's military draft.

The number of East Germans seeking alternative service has increased to more than 4,500, according to a report from West Berlin. The peace service, or *friedensdienst,* would permit men 18 to 25 years of age to engage in social work among children, the elderly, the handicapped and others in need of personal assistance as an alternative to military duty.

Like all other Communist states, East Germany rejects the concept of conscientious objection to military service, but it does allow those opposed to bearing arms to serve in quasi-military construction units.

Fundamental Conviction

The government has rejected nonmilitary alternative service on grounds that it would be contrary to the government's "fundamental conviction" that military strength is the greatest safeguard of peace.

Klaus Gysi, East German state secretary for church affairs, called the church's proposal a violation of the country's commitment to the Soviet-led Warsaw Pact alliance. He claimed that it implied that regular conscription was "anti-social," a view rejected by the Communist Party.

The government is alarmed by the proposal because it calls for official recognition of a right to refuse any form of military service.

However, according to reports from East Berlin, Mr. Gysi left the door open by stating that all matters in church-state relations are open to discussion.

Such discussions could no doubt be tense, due to the uneasy relations between what churchmen call "the throne and the altar."

Accommodation Rejected

Under a 1971 agreement, the dominant Evangelical (Protestant) Church and the state have an accommodation under which the church avoids any political opposition or anti-Communist activity in return for considerable internal autonomy and freedom to pursue humanitarian activities.

The agreement affects only the Protestant church, by far the largest in East Germany, with about 8 million members, or 80 percent of all churchgoers among the country's 17 million inhabitants. The 1.2 million-member Roman Catholic Church has rejected any accommodation with the government on the ground that Christianity is incompatible with the atheistic doctrines of the Communist state.

The Protestant church's position was spelled out at the time by Bishop Albert Schoenherr, who was then chairman of the Evangelical Church Federation: "We don't want to be a church against Socialism, nor a church alongside Socialism, but a church in Socialism."

The call for alternative peace service has strained church-state relations in East Germany at a time of growing international tension.

East German pastors have been using the pulpit and church declarations to voice concern over Eastern as well as Western arms policies and what they believe is the militarization of East German youth, especially through paramilitary training courses for schoolchildren.

The churches have called for reductions in nuclear weapons and other armaments in both the Communist and Western arsenals, while at the same time insisting that their views are not aimed at the Communist authorities in East Berlin.

Term of Abuse

The East German government of Erich Honecker has voiced support for the growing peace movements in Western Europe, while rejecting pacifism at home. Yet, Bishop Heinrich Rathke of Schwerin declared last summer: "It is dangerous when in both East and West the word pacifism is often treated as a term of abuse. Pacifists help prepare peace; we need such people."

The leadership of the church in the pacifist movement is open to question. Some sources say that it is merely responding to grass-roots feelings, especially among young people, and has assumed, as the Roman Catholic Church in Poland does, the role of a moderator between the people and the government.

An indication of the church's role as an arbiter, rather than activist, in the touchy peace-oriented issues is seen in the church's declarations that it is prepared to present the young people's views to the government, and vice versa.

The issue originated last spring among young people, especially in the Dresden area, who called for a possible alternative to the draft in letters and petitions to authorities. The alternative service would be patterned after the one established for conscientious objectors in West Germany in 1969.

Taking Up the Cause

The issue came to the attention of an Evangelical Church synod in Dresden, which took up the cause with the government.

Mr. Gysi warned in discussions with church leaders that the issue could lead to a confrontation with the state. He charged that alternative service would be tantamount to "lifting general military conscription." He insisted that the so-called construction soldier option, in force since 1964, already provides an alternative service to those opposed to bearing arms.

However, opponents maintain that the construction service bears military trappings. Construction unit members must swear allegiance to the National People's Army and wear military uniforms as they work on military buildings and other facilities. Critics also complain that those who choose the construction soldier option are subjected to discrimination in job opportunities, education and other fields after discharge.

Besides, they say, the construction soldier option does not afford an opportunity for an objector to dramatize his commitment to peace.

Finland Party Fails to Back Soviet Choice

Virolainen Picked To Run for President

Reuters

KUOPIO, Finland — Ahti Karjalainen, the former foreign minister widely regarded as Moscow's preference for the next president of Finland, has failed to win his party's nomination.

The Center Party congress voted, 2,666 to 1,365, to nominate the parliamentary speaker, Johannes Virolainen. The party vote Sunday night ran directly contrary to the recommendation of the Center Party executive and the party council.

The presidency was vacated last month when Urho Kekkonen, who had been Finland's head of state since 1956, resigned because of failing health at the age of 81.

Oblique Endorsement

In what was seen in Finland as oblique endorsement of Mr. Karjalainen, Pravda warned Finnish political parties last Friday that any miscalculation on their part over the question of who should assume the legacy of Mr. Kekkonen "could turn out to have consequences that are difficult to anticipate."

Neither Mr. Karjalainen nor Mr. Virolainen has much popular support, according to a recent public opinion poll. The poll showed that 60 percent of voters favored the country's Social Democratic premier, Mauno Koivisto, as the next president. Finns will vote on Jan. 17 and 18 to choose the 301 members of an electoral assembly that will appoint a president on Jan. 26.

Apart from that of his party leadership, Mr. Karjalainen also had the open support of the Stalinist faction of the Finnish Communist Party, and indirect backing from the Finnish Federation of Industries.

The federation declared publicly, just over a week ago, that the country needed a president with strong economic links in the Soviet Union, with which Finland does about 20 percent of its foreign trade.

Mr. Karjalainen, formerly a close associate of Mr. Kekkonen, is co-chairman of the Finnish-Soviet trade commission.

The Finnish multiparty system and the indirect method of electing presidents leaves room for trading in the electoral assembly, making Mr. Koivisto's election far from certain. Analysts here said that Kremlin reaction could still bring Mr. Karjalainen back into the race, possibly to break a deadlock in the electoral assembly.

London Transport Fare Cuts Bring Tax Rise and Dispute

By William Borders
New York Times Service

LONDON — The people who govern London are locked in a bitter legal dispute about a very basic subject — bus and subway fares.

At a time when the price of almost everything else is going up sharply, the fares were reduced last month by an average of 25 percent, with the deficit made up by higher real estate taxes. But a successful court challenge to the reduction has now thrown the case into the House of Lords.

"What we are talking about is people's rights," said Ken Livingstone, the 36-year-old left-wing Socialist who became leader of the Greater London Council last spring and immediately ordered the lower fares. "If we are ordered to put the fares back up again, many Londoners will suffer great hardship."

The dispute goes to the heart of the struggle between Britain's economic classes, since the fare cut penalized the rich to benefit the poor. The cut, which in the case of some trips exceeded 50 percent, was scheduled to cost the city $225 million in the first year. The cost would be more in subsequent years since the council promised to hold to the lower level for at least three years.

To raise that money, London boroughs levied substantial supplementary real estate taxes this fall, with the effect being that most people who owned property came out much worse, even if they also used public transportation.

Some of the borough councils, mindful of the possible political damage of what they were doing, made it clear that they were acting reluctantly. For example, the Conservative-dominated Kensington and Chelsea Council, which covers an area with many affluent residents, enclosed with the new tax bill a letter referring to it as "untimely." Of the Greater London Council's demand for a new tax, it said: "We cannot refuse, although we should dearly like to." By law, the borough councils act as collection agents for the Greater London Council.

Another Conservative-run council, in the southeast suburb of Bromley, took the issue to the Court of Appeal, which ruled in its favor earlier this month. The court called the fare reduction "an abuse of the council's powers" and ordered the fares back up again, plunging the situation into confusion.

"I realize that this must cause much consternation to the council," declared the opinion of Lord Denning, the master of the rolls. "They will be at their wits' end to know what to do about it, but it is their own fault. They must unscramble the affair as best they can. They cannot burden the rate payers of London with this supplementary precept."

Chinese Order News Blackout On Cardin Show

The Associated Press

PEKING — Authorities ordered a news blackout on a Pierre Cardin fashion show in Peking, apparently worried about its effects on youth, Chinese sources said Monday.

The sources, who asked not to be indentified, said authorities decided not to publicize Saturday's event, which featured Chinese men and women models in space suits and other clothes considered strange and inappropriate by the Chinese.

China has begun a campaign against Western "bourgeois liberal ideas and ways." Authorities have urged young people not to be lured by what they consider the superficial glitter of the West and not to forget Chinese patriotism and morality.

The show was attended by about 700 people in two sessions in the ballroom of the Peking Hotel. It was the first foreign fashion show in China to use Chinese models. Cardin opened a showroom in Peking Saturday and hopes to sign a business deal.

Salvadoran Bishop Says Government Blocks Church Aid

The Associated Press

SAN SALVADOR — The acting archbishop of El Salvador has said the government is blocking church aid to innocent victims of the country's civil war. He denied that Catholic groups were aiding leftist guerrillas.

In his weekly homily, the Archbishop Arturo Rivera y Damas said Sunday there had been no reply to his repeated requests that Catholic relief organizations be allowed into battle zones to bring food, medicine and other supplies to noncombatants.

Allegations of Catholic aid to leftists were made last week by Defense Ministry officials and a man they presented at a news conference as a deserter from guerrillas forces fighting to topple the U.S.-backed government. "These allegations are totally false," the archbishop said.

Dutch Organizers Of Peace Rally May Shift Goals

United Press International

AMSTERDAM — The tone of Saturday's peace rally in Amsterdam could lead to a moderation of the Dutch campaign against nuclear weapons in Western Europe, an organizer said Monday.

Freek Bakker of the main Dutch peace movement, the Interchurch Peace Council, said the organizers of the largest European demonstration against nuclear arms had been surprised by the emphasis on mutual arms reduction, and that the movement might now moderate its insistence on unilateral disarmament.

"The demonstration was entirely successful," Mr. Bakker said after a meeting Monday to assess the situation.

"There were a surprising number of banners aimed both at Soviet missiles and at NATO weapons, though, and this could lead to a shift in the emphasis of our campaign," he said.

American Skyscraper Born Again

By Paul Goldberger
New York Times Service

NEW YORK — There was a time, just a decade or so ago, when skyscrapers tended to look more or less alike. They were oblong in shape, and made mostly of steel and glass. They were flat on top, and they usually sat behind large expanses of concrete called plazas. If one of them could have been substituted for another on the Manhattan skyline — if one morning a building on Third Avenue suddenly changed places with one on the Avenue of the Americas — it is not likely that very many poeple would have noticed.

Whatever else can be said of the state of the American downtown now, there is little chance indeed of that kind of confusion or indifference. There is a degree of emotion, even passion, involved in the making of skyscrapers today that has not been present since the 1920s.

There is a new wave in skyscraper design, and it is as committed to liveliness and flamboyance as the last generation of tall buildings tended to dullness and banality. It is yielding excellent buildings in some cases and poor ones in others, but in almost every case it reveals how much has changed in the world of large-scale development in this country in the last few years.

The significance of this change extends far beyond architecture and the people who pass into or by it. For architecture has always been an expression of images, values and power as much as of aesthetics. And nowhere has this been more the case than with the skyscraper, that quintessentially American creation, mixing American faith in technology and progress with American theatricality. The new breed of skyscraper embodies the shifting attitudes of Americans toward business (and of business toward Americans), toward the environment and toward their own history.

New York is the best indication of this massive change. In the last building boom, in the mid-to-late 1960s, almost nothing of any real architectural interest was produced. Most buildings of that era, projects like the glass and concrete mass of 55 Water Street in lower Manhattan, or the glass boxes on the Avenue of the Americas in midtown, were designed by commercial architectural firms which admitted to few interests beyond the quick and efficient creation of rentable space. They used the vocabulary of modern architecture — debasing the grammar of the International Style of steel and glass and concrete, which had its roots in European utopian socialism of the 1920s and '30s — to create cheap, simple buildings which may have made sense economically, but added little either visually or socially to the life of the city.

Now, the roster of architects at work in midtown Manhattan is altogether different. In includes well-known figures ranging from the partners Philip Johnson and John Burgee to Edward Larrabee Barnes, Cesar Pelli, Ulrich Franzen, I.M. Pei and the firm of Skidmore, Owings & Merrill, as well as younger architects, such as the firms of Fox & Fowle, Attia & Perkins and Der Scutt.

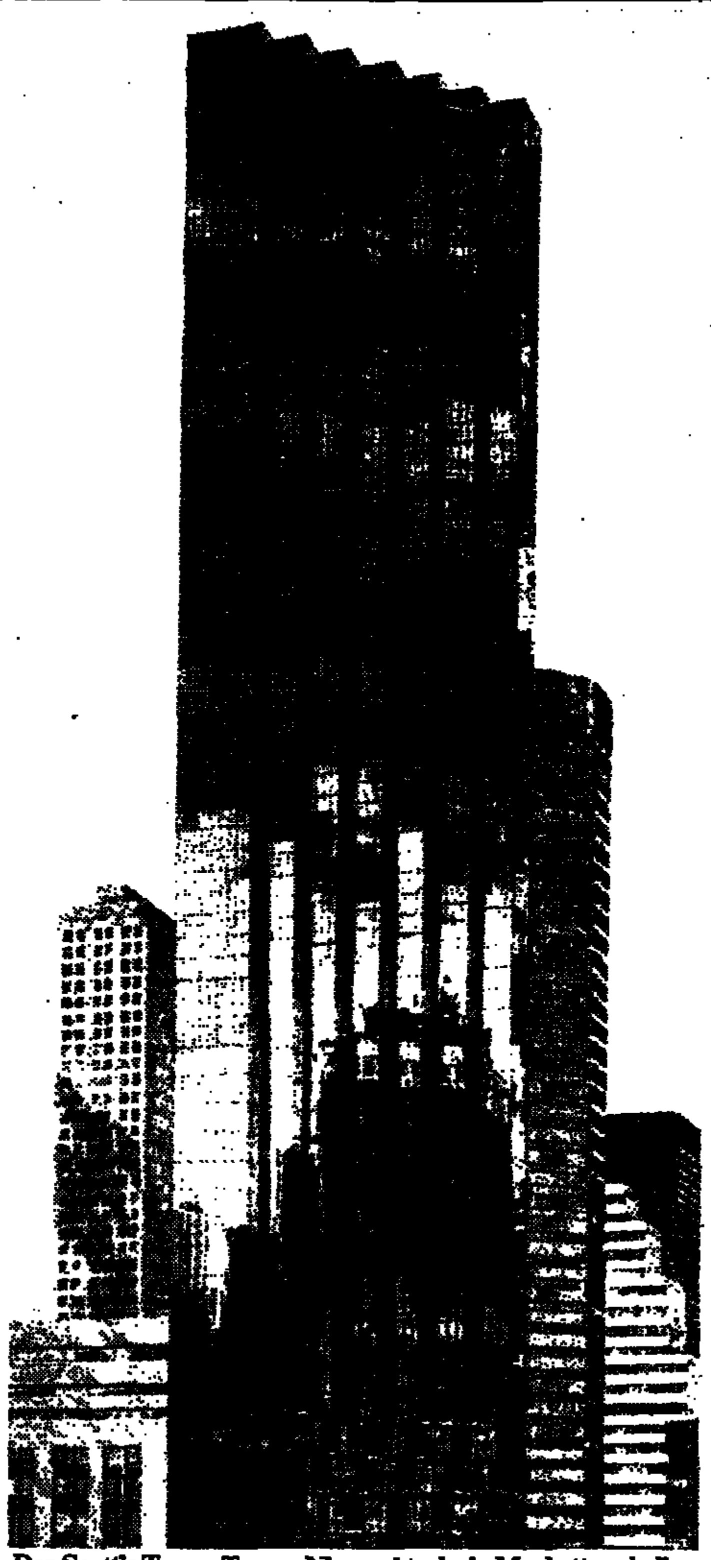
Nothing these architects are producing looks quite like what we are accustomed to seeing. Johnson and Burgee's granite tower for the American Telephone and Telegraph Co. headquarters on Madison Avenue, with its "Chippendale" broken-pediment top and its Renaissance-inspired base is surely the most famous — some would say notorious — example. When the design for this building was announced in 1978, it caused an outcry from both architects and the general public; the architects were accused of everything from trying to turn back history to knowing nothing about what skyscrapers were supposed to look like.

If AT&T is the most extreme example of the new generation of buildings in Manhattan, it is by no means alone in its departure from the conventions of recent years. Pelli's tower for the Museum of Modern Art has a "setback" top reminiscent of the crown of that great monument of the 1930s, the former McGraw-Hill Building, and though it is to be sheathed in glass, it will be a pattern of colored glass that is clearly and frankly decorative.

Franzen's Philip Morris headquarters will be of stone, with faint allusions to classical architecture. Trump Tower, by Der Scutt and Swanke, Hayden & Connell & Partners, will be of glass with lots of tiny setbacks and zigzags all the way up its 58 stories.

And on and on, not only in New York. For the Republic Bank in Houston, Johnson and Burgee have created a tour de force as startling, in its way, as AT&T. The Republic Bank Center will be a 56-story tower of remarkable profile, with myriad setbacks that allude loosely to Renaissance architecture; there will be a banking hall at the base that calls to mind such diverse sources as the 19th-century architect Henry Hobson Richardson and the 18th-century visionary Claude Nicholas Ledoux.

For Chicago, Helmut Jahn, of Murphy/Jahn, has created an addition to the Board of Trade building that echoes the original building's Art Deco setbacks. Murphy/Jahn also did the rounded Xerox Center there. And in Minneapolis, Miami, Houston and Boston, Skidmore, Owings & Merrill has constructed granite skyscrapers with setbacks and projecting nips and tucks which, while not borrowing from history as conspicuously as these other buildings do, underscore with their eccentric shapes how different even the most cautious skyscraper design has now become.



Der Scutt's Trump Tower: Nips and tucks in Manhattan skyline.

Vienna Gets a 'Song of Broadway'

By Thomas Quinn Curtiss
International Herald Tribune

VIENNA — The Broadway musical — with the possible exception of Eugene O'Neill's dramas — is the American theater's most appreciated gift to the international stage.

Abroad it is rapturously admired and a constant model. It tends to acquire an alien accent in foreign reproduction, but this matters little. "Rose Marie," "Oklahoma!," "My Fair Lady" and "Hair" have duplicated their home-ground success everywhere from Stockholm to Buenos Aires.

Vienna's English Theater, on holiday from the straight play, is taking a fling at song and dance with a miniature tribute to the American musical. Entitled "Song of Broadway," it goes from the origins in the minstrel show through the era of George M. Cohan's flag-waving effusions to the Gershwin-Cole Porter age and on to "A Chorus Line." The history of the Great White Way, with blown-up photographs of the dazzling boulevard at various periods as a backdrop, is reflected as though in a pocket mirror.

A sextet of American youngsters performs it with appealing zest. Margaret V. Cowie, Frank Kubik and Ted Spencer, all of whom participated in the production of Leonard Bernstein's "Mass" at the Vienna State Opera earlier this year, reveal their vocal talents in selections from "Evita," "Camelot," "Show Boat" and "My Fair Lady," while the graceful, towering Neva Rae Powers revives "Begin the Beguine" with a flute solo and gliding dance; Jack Kirk impersonates "Yankee Doodle Dandy" with full force, and Valda Aviks displays herself as a droll comedienne. Herwig Gratzer, an accomplished musician, is at the keyboard and William Milié, who has mounted many an American musical in Europe and choreographed "Mass" here, has directed and choreographed with smart style.

Marcel Prawy, a popular Austrian television star who, having collaborated on New York productions, has introduced the latter-day American musical to German-language audiences, is master of the revels. On alternate evenings, when he is on the airwaves, Ruth Brinkmann, the American actress, recites his script, in which he tosses off anecdotes about U.S. theater folk. Thus, we learn that George M. Cohan was so inordinately pleased with himself that it was rumored that when he strolled in lovers' lane he held his own hand. Nor has Prawy recovered from the shock he suffered when the curtain rose on "Blossom Time" to disclose an actor portraying Franz Schubert at the piano singing the "Unfinished" Symphony.

It is Prawy who arranged this collage of hit songs and Broadway technique and his affection for all things American has carried him to the point of putting in "God Bless America," which on foreign soil is going too far.

The company's little 18th-century hall does not have the performing space for Ziegfeld-sized grandeur, but its current occupant with its compact salute to musical Americana fits the frame attractively.

* * *

Vienna has long been the theatrical capital of central Europe. It still is in that it maintains lofty standards of acting and production, but where it once exported plays and operettas it today in large measure imports them.

"The Man of La Mancha" holds the boards at the Theater an der Wien, where in the first decade of this century Lehar's "Merry Widow" and Oscar Straus' "Waltz Dream" were first heard. Two Czech exiles, Vaclav Havel and Pavel Kohout, and Tennessee Williams and Tom Stoppard are dramatists with plays at the Akademietheater. Pinter's "No Man's Land" is at the Kammerspiele; "Who's Afraid of Virginia Woolf?" is at the Ateliertheater am Naschmarkt; Agatha Christie's "Ten Little Indians" is at the Kleine Komödie; "Yvonne, Princess of Burgundy" of Gombrowicz is at the Theater im Kunstlerhaus; a Peter Ustinov play is at the Josefstadt, and "My Fair Lady" is in the repertory of the Volksoper.

Peter Schaffer's "Amadeus," in which the British playwright presents Mozart's conflict with his bitter rival, Antonio Salieri, is at the Burgtheater side by side with Shakespeare, Ibsen and Gorky, and enjoying enormous success. The subject has been treated by Pushkin in a short play. In Shaffer's version Mozart is drawn as a foul-mouthed buffoon (the idea inspired by some scatological letters he wrote) and there was speculation that the portrait would be resented in Vienna. On the contrary, it is one of the hits of the season.

Viennese Cabaret

More authentically Viennese is the show of the chansonnier pair, Kurt Sobotka and Lore Krainer at the Fledermaus cabaret. "Kabarequiem," in which the witty couple mock the pressing problems of the day, have their sharp say on politics and politicians, national and international, and burlesque peasant folk song, protective self-assurance and the clichés of crotchety reasoning.

The Fledermaus cabaret, a cozy, below-stairs establishment in Spiegelgasse, with bar service at its candlelit tables before curtain time, has a curious story. It was founded by Egon Friedell, one of the Vienna's eccentric celebrities, a figure of the Victorian Baroque transplanted into the 20th century. A noted historian of world culture, he doubled as an actor in Max Reinhardt's productions and when applauded would remark: "That's for my books."

When asked about his double life as philosopher and clown, he replied: "The philosopher begins where man stops taking himself and his life seriously."

Friedell, a big, corpulent man with a commanding voice and gestures, bore a striking resemblance to Goethe. In a skit he introduced at the Fledermaus cabaret he took the role of Goethe who, feeling pity for a poor student of modern times who is about to be examined on the subject of Goethe, substitutes for him and wretchedly flunks questions about his own biography as it has been set down in school books.

In March, 1938, when the Nazis marched into Vienna, Friedell committed suicide by jumping out of the window of his flat. He has left a literary reputation by his writing and the cabaret that he founded continues to flourish in the manner of topical satire that he recommended.

Sovilla Is Promising In 'Manon' in Venice

By William Weaver
International Herald Tribune

VENICE — The new management of the Teatro La Fenice — in charge of the theater for about a year now — has been following a bold policy of featuring young singers, and the star of the "Manon" that has opened the current season, though only 25 and hardly more than a debutante, looks to be headed for an international career.

Her name is Floriana Sovilla; she is pert, blonde, graceful, has a strong, flexible, appealing voice and she even enunciates French plausibly. Needless to say, she still has some way to go before she will be an ideal Massenet heroine. She was more convincing in the lyric parts (Act 2, especially) than in her brilliant music of the Cours-la-Reine scene, and her opening aria was less effective than it should have been. But these things will surely come in time, and it will be interesting to see — and hear — her develop.

To present inexperienced artists in a long opera in a foreign language is dangerous, and if the wager paid off with Sovilla, it was less successful in the case of the tenor, Pietro Ballo, a 29-year-old Sicilian. Italian tenors can shine in Massenet — as Schipa, Valetti, and others have amply demonstrated — but Ballo was clearly at sea. Basically, the voice is good material, sweet when not forced and with a nice ring at the top. But he too often crooned or yelled and his stiff stage personality did not help him over the rough spots.

The staging of Jean Reynald Prêtre (born 1954, son of the conductor) was no help, either. Making his debut in opera, young Prêtre moved the chorus skillfully, but did little with the principals. Poussette and her girlfriends were particularly ill at ease, though, in compensation, they sang charmingly and deserve mention: Gladys Mayo, Monique Baudouin, Rosanna Didone. As Lescaut, the veteran Angelo Romero — he is all of 41 — brought a welcome assurance and a commanding musicality to the performance. Among the smaller roles, the senior Des Grieux was nobly interpreted by Michel Hubert, whose native French shone like a good deed.

The Fenice's resident designer, Lauro Grisman, designed sensible sets and costumes, a relief from the megalomaniac taste that has taken over most Italian opera houses. The inn actually looked like an inn, and Saint-Sulpice was recognizable as a place of worship. Whether by his decision or the director's, all the sets — indeed, all the action of the opera — were seen behind an unusually heavy scrim (rather like watching it on a too-dim television set) and the lighting was uniformly gloomy. The singers' faces were in shadow much of the time.

But, all quibbles aside, this was a thoroughly enjoyable performance, also because Georges Prêtre clearly inspired the Fenice orchestra to outdo itself. Except for the lighting, the whole performance was distinguished by its clarity.

U.S. Scientists Are Facing a Dilemma on Whether to Make Predictions of Earthquakes

By Robert Lindsey
New York Times Service

LOS ANGELES — A recurring fear is haunting some of the scientists who monitor movements of the Earth's crust in California: Someday, they say, they will see a set of measurements and their experience will tell them a major earthquake may be imminent. But they will not sound a warning that could save thousands of lives, they fear.

The reason for their silence in this imagined outcome, the researchers say, is that they will not have enough confidence in the evidence before them to predict an earthquake to a nation where a wrong prediction could bring them professional scorn, public ridicule and possibly hundreds of lawsuits.

"It's a serious dilemma," said C. Barry Raleigh, director of Columbia University's Lamont-Doherty Geological Observatory and until last summer the coordinator of a California-based group on earthquake prediction for the U.S. Geological Survey.

For a number of years, he said, "we will be in the awkward in-between stage where we have gathered the right information but we will not have had sufficient experience to make a very clear statement about what it means."

Disaster planning officials have said that advance warning of a great earthquake in Los Angeles could probably save tens of thousands of lives.

At the same time, they concede, the issuing of a false alarm about a serious earthquake could not only undermine confidence in public officials but also have a variety of economic repercussions, such as depressing real estate values or causing loss of income by unnecessarily forcing the closing of manufacturing plants.

Not only are researchers concerned about their reputation and possible litigation for an erroneous prediction, Mr. Raleigh said, but some are also apprehensive about possible recriminations if a big earthquake occurs and, with hindsight, an investigation determines the existence of warning signals that were not heeded.

Virtually every seismologist and geologist who has evaluated the system of faults in California agrees that a potentially devastating earthquake comparable to the one in 1906 that leveled much of San Francisco will probably occur in the state in the next 30 years.

There have been tantalizing clues in the last three years or so, they say, that something unusual was occurring deep in the Earth's crust and possibly indicating that accumulated energy in the fault system is about to be released in a great earthquake. The clues have ranged from an upsurge in the rate of small and moderate earthquakes since 1978 to the eruption of Mount St. Helens in Washington and puzzling emissions of a radioactive gas, radon, near here along the San Andreas Fault.

Radon is a decay product of radium, and radium deep in the Earth releases radon all the time. Radon decays into other elements so fast that half of it is gone after less than four days. Thus, if measured levels of radon rise at an unusual rate, scientists say, they know that deep in the Earth some sort of motion is taking place.

The clues have been perplexing, the scientists emphasize. While events similar to those recently observed have preceded major earthquakes in the past, such phenomena have also occurred when a major earthquake did not follow.

Some researchers in the field, however, contend that better means must be devised to evaluate predictions if scientists are expected to take the risk and make potentially life-saving predictions of an earthquake.

In May, 1976, Mr. Whitcomb, then a researcher at the California Institute of Technology, told colleagues that changes he had measured in the speed at which sound waves traveled through the Earth's crust made him believe that a large earthquake would hit southern California in the next year. His comments were reported by the mass media.

A year later, after the predicted quake did not occur, Mr. Whitcomb withdrew the prediction. But he encountered heavy criticism from real estate agents and some city officials who threatened to sue him.

Mr. Whitcomb is now critical of the way the press, the prediction council and political leaders responded to the prediction. He also said that colleagues had told him the prediction would inhibit them from taking similar risks, an inhibition, he said, that could result in lost lives.

"Instead of this televised witch trial atmosphere," he said, scientists should be allowed to submit their data to scientific peer groups.

Philippines Is Bracing For a Strong Typhoon

United Press International

MANILA — A typhoon, designated Irma, the strongest storm in the Philippines since 1970, hit the coconut-producing region Monday with peak winds of 130 miles per hour (208 kilometers per hour).

Meteorologists feared that a warm front would increase the typhoon's strength. The typhoon, east-southeast of Manila, was moving toward the central Philippines and was expected to cross the area Tuesday.

Okinawa City Acts To Oust U.S. Base

United Press International

TOKYO — The city of Naha, capital of Okinawa, filed suit on Monday, seeking the immediate return of land being used as a U.S. military base.

The suit was filed by Naha Mayor Ryosho Taira against the Japanese government of Premier Zenko Suzuki. Nine years after the United States returned Okinawa to Japan, about 30,000 U.S. Marines, airmen, sailors and soldiers are still stationed on the island.

After two days of heated debate in the City Council, Mr. Taira took the legal step seeking to void moves made by Mr. Suzuki on Aug. 24 designed to allow the base to remain after the current agreement expires next May.

China Claims French Envoy Financed Dissident Groups

The Associated Press

PEKING — China's domestic news agency has reported that a French diplomat who was living illegally with a Chinese woman was supporting and financing illegal dissident groups.

The China news service bulletin also said that his girlfriend, an artist, "for a long time engaged in improper and hooligan activities which harmed the moral outlook and had an adverse social influence."

The bulletin, issued Nov. 14 and seen here Monday, was the strongest attack yet on Emmanuel Bellefroid, 33, a former diplomat in Peking who was known to have close ties with dissidents. It also was the strongest attack on his girlfriend, who was arrested Sept. 9 and sentenced to a two-year term of re-education through labor.

Mr. Bellefroid, now in Paris, has said that Li Shuang, 24, was his fiancée and that they had been given permission to marry.

The agency report said that during his stay in Peking, Mr. Bellefroid "supported and financed Chinese illegal organizations and there is incontrovertible evidence against him."

Miss Li lived with Mr. Bellefroid at his apartment for two months. On Sept. 9 she went to the compound gate and was shoved across the threshold and taken away by plainclothesmen.

The arrest and labor term for the young woman created an uproar in the French media, and Michel Jobert, the French minister of foreign trade, protested China's handling of the case. He said it could impair Chinese-French relations.

The Chinese were infuriated at what they called French interference in China's internal affairs.

Mr. Bellefroid met Miss Li at an avant garde art exhibition in September of last year. Mr. Bellefroid was married at the time, and his wife was working in Peking for the French news agency, Agence France-Presse, the news service said.

Last May, Mr. Bellefroid applied to marry Li Shuang and produced a divorce certificate, the Chinese report said. Authorities then carried out an investigation "in view of the period in which Li Shuang's hooligan activities disrupted the social peace and stability and caused the masses to be indignant." Therefore, it said, their marriage was not approved at that time.

"Bellefroid overlooked the law of the country in which he resided and worked and hid Li Shuang in his apartment," it said.

The report concluded by saying it was strange that the French press would "disregard the feelings of one billion Chinese people and listen to the ranting and ravings of Bellefroid and be sympathetic to a jobless female hooligan."

"Are these acts conducive to Chinese-French friendship?" the report asked.

Weapons Stolen At French Base

The Associated Press

FOIX, France — Ten armed and masked men overpowered two sentries and raided an army reserve supply center, stealing four heavy machine guns, more than 100 submachine guns, rifles and ammunition, police sources said.

An army statement acknowledging the raid said all the weapons stolen Sunday were inoperative because their firing mechanisms had been removed.

Defense Minister Charles Hernu expressed his surprise at the "extreme competence" of the commando raid. He ordered an investigation of security at military bases.

15 Thai Soldiers Killed By Communists Rebels

Reuters

BANGKOK — The Thai Army command said on Monday that Communist rebels killed 15 soldiers and injured 45 others in attacks on four military bases in the southern Thai province of Surat Thani on Sunday. It also reported one guerrilla casualty.

Thai officials claimed recently to have defeated Communist insurgents in Surat Thani where troops backed by local militia scoured jungle areas for an estimated 1,200 guerrillas.

Tanker Losing Oil in Baltic

The Associated Press

STOCKHOLM — The 20,000-ton tanker Globeasimi, grounded off the Lithuanian Baltic port Klaipeda, is leaking oil, the Swedish Coast Guard said Monday. The tanker, registered in Gibraltar, went aground Saturday in bad weather.

INTERNATIONAL
Herald Tribune
Published with The New York Times and The Washington Post
PARIS, NOVEMBER, 1981

EUROMARKETS
PART I

A SPECIAL SUPPLEMENT

A Gawky Adolescent Begins to Settle Down

By Carl Gewirtz

PARIS — Once the *enfant terrible* of international capitalism, the Euromarket appears to be passing out of its tumultuous, if not late, adolescence into a more sober period of restrained growth.

The market of expatriate dollars, Deutsche marks, Swiss francs, sterling, guilders, French francs, yen, Belgian francs as well as various other smaller currencies and composite units such as the Unit of Account, European Currency Unit and Special Drawing Rights now is valued to total the equivalent of $1.35 trillion — a 3,353 percent increase from the $39 billion recorded in 1965, the earliest measure of the market's size.

Year after year from its inception in 1957, the Euromarket has expanded at a phenomenal rate — an average of 26 percent a year. Now, for the first time, the rate of growth has slowed markedly — a mere 11½ percent in the year to June.

Dollar's Recovery

Central bankers as well as commercial bankers express a collective sigh of relief at the news, believing that no market can keep expanding at such a fast clip without tripping on its own inherent instability. But the slowdown, welcome as it is, creates new worries: Will commercial banks be willing to go on lending as they have to finance the current-account deficits and rapid industrial growth of the major developing countries who have come to rely on the banks to finance almost two-thirds of their annual cash shortfall?

The actual size of the Euromarket's slowdown is hard to pin down due to the distortions emanating from the dollar's very strong recovery in the foreign exchange market (up 35 percent against the mark in the year to June, 40 percent against the French franc, 26 percent against the Swiss franc). This has meant a sharp reduction in the value of the non-dollar assets when expressed in terms of U.S. dollars.

In addition, interbank activity — the buying and selling of deposits among banks, which normally accounts for some 40 percent of the overall market — tends to surge when the dollar is weak and speculation in the foreign exchange market is high, and tends to slow when the dollar is strong.

Allowing for these distortions, international monetary experts estimate that the market may have expanded as much as 18 percent in the past year. Even accepting that figure, it is clear that the rate of growth is slowing.

A major contributing factor to this slowdown is the sharp decline in the estimated size of the OPEC surplus this year and the concomitant drop in the amount of money the oil exporting states deposit in the market.

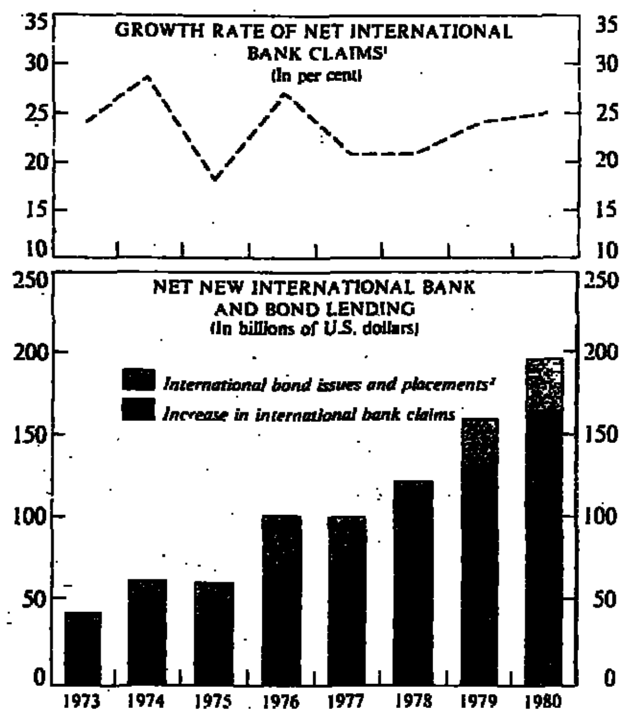
Estimates Revised

As late as midyear, officials at the Organization for Economic Cooperation and Development were forecasting an OPEC current-account surplus (the cash left after paying for imports and services and deducting private and official transfers) of $109 billion for 1981. In the past, as much as 58 percent of OPEC's cash surpluses has been deposited in the Euromarket.

But officials currently are busy revising their estimates and now believe that the OPEC surplus for this year will total only $57 billion,

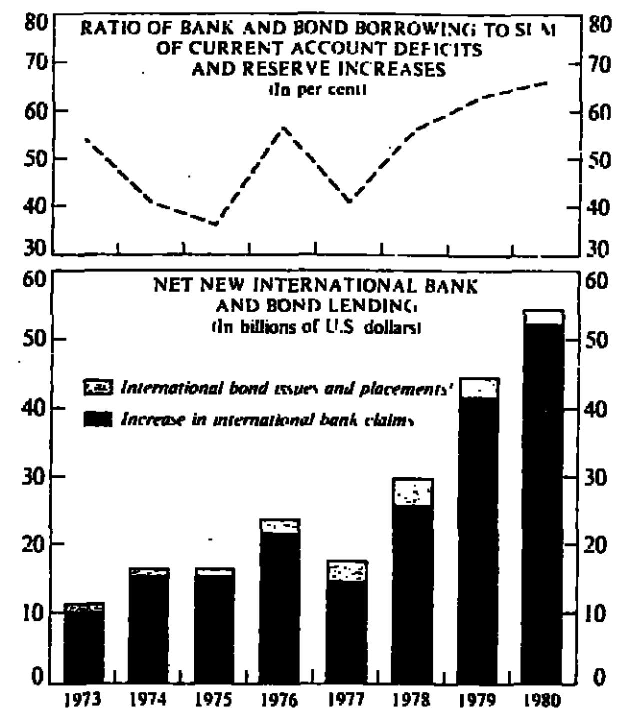
(Continued on Page 11S)

Net Lending Through International Capital Markets, 1973-80



1)Measured in U.S. dollars; adjusted for valuation effects of exchange rate changes.
2)Net of repayments; does not exclude double counting due to banks' issuing and holding of bonds.

Non-Oil Developing Countries: Financing Through International Capital Markets, 1973-80



1)Net of repayments; does not exclude double counting due to banks' holding of bonds.

Charts: International Monetary Fund

New Life Stirs in an Old Financing Tradition

By Michael Comninos

LONDON — The last three months have witnessed a burst of activity by overseas borrowers in the traditional sterling acceptance credit market in London. In fact, well over £1 billion of acceptance credit facilities have been granted to foreign corporations since the beginning of August. For example, at the end of that month the largest single sterling acceptance credit so far was syndicated for Petroleos Mexicanos, £365 million being placed by Baring Brothers & Co., N.M. Rothschild & Sons and Samuel Montagu & Co.

While there are specific reasons for this recent spate of activity, it is important to look at the market's development in a historical context.

Travel Time

The lengthy period taken for goods to travel from one country to another meant that exporters were obliged to grant importers trade credit to cover the time taken for the goods to reach their destination. Accordingly, it became customary for the exporter to receive a bill of exchange accepted by the importer — i.e., a marketable piece of paper representing an unconditional obligation by the importer to pay the amount of the bill on its maturity date.

The rapid expansion of foreign trade during the 19th century meant that exporters did not always have a detailed knowledge of the buyer's financial stature. They therefore required the bills to be accepted by a banker on behalf of the buyer as a guarantee of payment.

As most foreign trade at that time was priced in sterling, London banks, and merchant banks in particular, often assumed this role, whether or not the goods were destined for Britain.

Consequently, the London bankers' acceptance not only oiled the wheels of international trade, but also provided the exporter with the means of realizing sums owing to him by his customers, and provided the banking system with liquid assets of undoubted quality.

From the beginning of this century an increasing proportion of overseas trade was assumed by corporations of undoubted stand-

The sterling acceptance market has a long and checkered history. Now it is passing through one of its most interesting phases of development.

ing and accordingly the need for banks to support importers waned. There remained, however, the need for exporters to finance the movement of their goods. In addition, it became increasingly cumbersome to draw individual bills for each shipment. Accordingly, merchant banks in London started to offer their clients general lines of credit under which banks agreed to accept bills drawn on them by their clients for a commission. After acceptance the bills were sold in the money market to provide the client with the funds he required.

Although not linked to individual shipments, it remains a firm rule (subject to one exception mentioned below) that general acceptance credit lines can only be utilized to finance trade debtors and inventories: Bills must mature within six months.

Until the start of World War II, the sterling acceptance represented an important source of finance for third-country trade, but after 1939 this usage atrophied under the pressure of progressively restricted exchange controls and for the next 40 years business was increasingly oriented toward the domestic market. After the war, however, the volume of acceptances rose steadily, partially because of the fact that it became permissible to grant acceptance credits to finance companies offering consumer credit. In addition, unlike loans, acceptance credits were not constrained by the successive schemes imposed on banks by the Bank of England to contain the growth of credit. The last such scheme saw an increase in sterling acceptances from £3.039 billion in August, 1978, to over £6 billion in March, 1981.

The abolition of British exchange controls in 1979 once more made it easier for foreign borrowers to tap the sterling acceptance market, though initially at least, there was little visible increase in activity from overseas. This was probably because the Bank of England's tight monetary policy maintained sterling interest rates at high levels and the strength of the exchange rate made sterling unattractive to foreign borrowers.

By May, 1981, the picture was very different. In that month three-month sterling deposit rates fell to 12 percent, while three-month Eurodollar rates soared to 20 percent. Yields on dollar bonds rose inexorably. Suddenly corporate treasurers saw in sterling an alternative source of funding meriting immediate attention and focused their attention on acceptances as well as bonds.

These plans were already well-advanced, and a handful of medium-size syndications had been arranged, when the Bank of England added a further boost. It amended its approach to monetary control in a number of ways. In particular, a greater emphasis was placed on open-market operations in the bill market at the expense of loans to the discount market. To ensure

(Continued on Page 12S)

Comecon: Breathing Room

By Alan Tillier

PARIS — The Polish debt cliffhanger, the worries about Romania, Soviet self-sufficiency, the credit rating of other East European countries all have combined to whiten the hair of the small and hardy band of Western bankers who deal with the Communist bloc.

The least one can say is that 1981 has been a quiet year in this segment of the market. In 1980, the Comecon countries raised a total of $2.6 billion in medium-term Eurocurrency credits. During the first eight months in 1981, Comecon borrowings on the Euromarket totaled $1.2 billion with the Russians notable absentees.

The 21-bank "task force" representing 460 banks involved with Poland agreed in Vienna recently on the rescheduling of $2.4 billion of Polish commercial debt that falls due during the last nine months of this year. There will be rescheduling, too, of 1982 and 1983 debt totaling $4 billion, and the Poles have benefited from a grace period, which means they will not actually start repaying until 1986. But with Polish debt hovering at the $25-billion mark and total Soviet bloc debt above $73 billion there is reluctance among Western bankers to become more deeply involved.

The Austrian Institute for Economic Research said that actual indebtedness of the Communist countries was higher than $73 billion to $75 billion (net sum totals had been arrived at after substracting Eastern deposits in Western banks). The institute gave the following breakdown of bank debts: Bulgaria, $1.8 billion; Czechoslovakia, $2.7 billion; East Germany, $8 billion; Hungary, $6.2 billion; Poland, $14.7 billion; Romania, $5.4 billion, Soviet Union plus the Moscow-based Comecon banks, $8.7 billion. The other part of the total represented $26 billion worth of government and commercial credits.

Polish and Western banks met again in London in late October to sort out details, and one banker described the weeklong talks as just another step in a major operation. Polish terms have risen to a very high 1.75 percent over the London interbank rate (LIBOR), whereas the rate for East Europeans now stands at seven eighths to 1 percent.

Activity with the East has been sluggish this year — a $150-million Arab deal with Hungary, Citicorp with a $400-million deal with the same country, BNP and Nippon Credit with $100 million for the East Germans.

Whereas Hungary's management of its debt is admired, Romania has been getting some bad marks. Romania has a temporary "payments incapacity," according to a Bucharest official, and this has affected an $80-million credit for Romania Foreign Trade Bank. The money is intended to finance nuclear power equipment and involves Manufacturers Hanover, Bank of America, Bankers Trust and Bank of Tokyo at seven eighths percent over seven years.

But Romania is experiencing foreign exchange cash flow problems. One London banker involved said: "Romania has a chronic shortage of foreign exchange and the loan is still sitting there." He said that Arab banks had been loaning money to the East European states, but that these deals had been related to bilateral trade arrangements involving oil. The Romanian loan with Western banks will have to wait until the situation is clarified, in the words of one U.S. banker dealing with that country.

There is little in the pipeline. The Yugoslav National Bank is looking for $400 million to partly cover $4.3 billion foreign borrowing needs while the Comecon IIB bank is testing the market for $100 million. Basically, there has been no major deal since June. East and West, everyone is waiting. The West wants more information about the state of Eastern economies. The East is conscious about rates.

Alan Tillier, a free-lance journalist based in France, is a frequent contributor to IHT special supplements.

East-West Borrowing, 1980-81
(in millions of dollars)

	1980	Jan.-Aug. 1981
East Germany	303	400
Hungary	550	550
Poland	800	—
Other	900	250

Comecon Position With Western Banks*
End March, 1981 (in millions of dollars)

	Liabilities	Deposits	Net position
Bulgaria	2,491	805	-1,686
Czechoslovakia	3,477	910	-2,567
East Germany	9,625	1,942	-7,683
Hungary	6,841	834	-6,007
Poland	14,701	565	-14,136
Romania	5,396	147	-5,249
Soviet Union	13,911	5,519	-8,392
Residual (unallocated)	2,397	670	-1,727
TOTAL	58,839	11,392	-47,447
Yugoslavia	9,789	2,457	-7,332

* Banks in the Group of Ten countries, Sweden, Austria, Denmark, Ireland, and some of their foreign affiliates.

(Another Comecon table appears on Page 16S)

What Future for Formal Credit Ratings?

By Mahesh K. Kotecha

NEW YORK — Formal credit ratings are unique to U.S. capital and money markets. Will they become a market convention for Eurobonds and foreign bonds in Europe and Japan?

This question is being asked more often by borrowers, investors and investment bankers in Europe and Japan.

For more than 50 years, ratings have provided U.S. investors with standardized, simple measures of credit risk, assessing the probability of timely repayment of pricipal and interest. They allow investors to spend more time on other aspects of investment decisions. This permits impersonal intermediation between increasing numbers of borrowers and investors.

Ratings play a major role in the U.S. credit market. Many investors will not buy unrated securities. Others buy only those rated "A" or better; lower-rated securities provide higher returns but entail greater risks. Since January, 1980, for example, "AA" rated utilities and industrials paid a premium of 39 basis points on average over their "AAA" rated counterparts. A good rating can generate a broader market and a lower cost for the borrower.

Complex Structure

Ratings can be especially useful for an issuer lacking in instant market recognition. For example, I/S ELSAM, the Danish electricity consortium, recently became the first rated domestic Swiss-franc borrower. ELSAM normally would be a tough name to sell, due to its complex ownership structure, which is difficult to fathom. But with its "AAA" rating from Standard & Poor's, ELSAM found it possible to double the size of its borrowing to 60 million Swiss francs.

The rising importance of ratings in the United States is a response to demands of the credit markets. Standard & Poor's bond ratings were developed in the 1920s to help the firm in its discretionary management of a substantial sum of funds, an activity from which it subsequently withdrew. As word spread about the system, a subscription service developed. The firm now charges the issuer for a rating.

Commercial paper ratings were a direct result of the U.S. market's concern about deteriorating credit quality at the time of the Penn Central crisis in 1969-1970.

The formal credit rating system is largely a U.S. phenomenon. Its international role has been confined mainly to rating the debt of non-U.S. borrowers in the U.S. markets.

While the volume of Yankee bond financing is flat at $4 billion to $6 billion, given high U.S. interest rates, the volume in the Eurobond market has multiplied more than sixfold since the mid-1970s to $24 billion in 1980, galloping past the $14.5-billion equivalent raised in foreign bonds outside the United States. So the greater international challenge for formal credit ratings lies in the unregulated Eurobond market, where the role of ratings has been minimal.

About 30 Eurobond issues are rated by Standard & Poor's, all at the request of the issuers, including foreign financing affiliates of U.S. companies. This compares with about 200 non-U.S. issuers with rated Yankee bond obligations and more than 2,500 corporate rated issuers in the United States.

It is no surprise, therefore, that a recently issued guide on Eurobond markets states that ratings "have little or no impact on the marketing and final pricing of a Eurobond issue because investors in one country will have different criteria for assessing credit risk" from those in other countries.

But a Euromoney publication states that "certain Eurobond issuers have found ratings helpful in selling their credit. There is some evidence that borrowers which obtained high-grade ratings have consequently realized savings in subsequent Euro-issues that more than compensated for the cost of the ratings."

These two quotes are highly revealing. The first is probably wrong about the impact of ratings and is certainly wrong about the reason. There is no reason that the criteria for determining the probability of timely repayment used by European investors should differ significantly from those used by U.S. investors.

Different Risks

If Eurobond investors in different countries appear to have different investment criteria, it is because they face different foreign exchange risks and possibly different sovereign risks. We know that institutional investors in the Middle East, Switzerland, West Germany, France and Japan pay attention to formal credit ratings.

The second quote is more accurate, and cleverly worded. It implies that ratings are obtained for U.S. issues, but used in "subsequent Euro-issues" by borrowers who obtain "high-grade ratings." This is the informal practice, and the problem.

The vast majority of the larger borrowers in the non-U.S. markets

(Continued on Page 8S)

Despite Slump, U.S. Corporate Bond Issues Can Resist Crowding Out

By Bill Foy and Geoffrey Wood

LONDON — During the 1960s, British companies raised approximately one-fifth of their external finance by the issue of corporate bonds. Since the early 1970s, however, British companies have not issued bonds on a substantial scale; indeed, redemptions exceeded new issues at the end of that decade.

Over the past year or so, corporate bond issues have fallen off in the United States, and what has been issued has been concentrated into periods of a few weeks, followed by months of inactivity. In both countries the cause is "crowding out," i.e., the private sector being unable to compete with the government. Does this imply that the U.S. corporate bond market is doomed to follow the path of the British corporate bond market?

It does not. There are two important differences in the circumstances of the two markets:

- The greater unwillingness of British company treasurers to pay high nominal rates, whatever these may turn out to be in real terms, after allowing for inflation.
- The greater influence on long-term bond yields in Britain of the move toward control of the money supply. This arises from the peculiar character of the techniques of monetary control in Britain.

A basic reason must be the way British economic policy has been conducted — a policy of "stop-go." From 1945 until the present government came to office in 1979, the response of British governments to rising unemployment and companies in financial difficulties was so predictable as to appear almost automatic: They eased both fiscal and monetary policy. Corporate treasurers knew they would be bailed out by a combination of increased government spending, perhaps tax cuts, greater expansion of money supply and, from time to time, a devaluation of sterling. Hence, the treasurers got into the habit of reducing their long-term bond offerings at times of financial stress, and resuming them when conditions eased — for they could count on the easing coming fairly soon.

Then, over the last 10 years or so, with Britain experiencing higher levels of inflation even during periods of recession, inflationary expectations increasingly deteriorated and lenders began to insist on greater inflation premiums. This meant that bond market yields, in nominal terms, stayed above what they had been during previous periods of recession, and companies were further encouraged to borrow short rather than commit themselves to "high" nominal yields for the next 20 years.

The British tax system places problems in the way of the corporate bond market. In particular, capital gains on government bonds held for less than one year are free of all tax; this does not apply to corporate bonds. Further, a tax, known as stamp duty, was payable at a rate of 2 percent on all transactions in corporate bonds, but was not levied on government bonds. The rate has been reduced to 1 percent, but government bonds are still exempt. Additionally, in contrast to the United States, British corporate bonds have not incorporated call options. The U.S. corporate treasurer took less of a view on future rates over the following 20 years if he had the facility to call his bond. The British treasurer was taking a much greater risk of being saddled with high

Important differences in market seen heading off what happened in Britain.

real rates if inflation fell. Finally, the British overdraft system made permanent short-term borrowing available to British corporations. Such facilities were not offered in the United States.

The effect of these factors was greatly aggravated by the mechanism of monetary control in Britain. In contrast to the United States, the reserve base in Britain was not confined to the monetary base — loosely defined as cash and banks' deposits with the central bank — but included a much wider range of assets. In particular, Treasury bills, short government bonds and money at call at the discount market were also reserve assets. This meant, as is still the case to a large extent, that any attempt to control the money supply, over a short period of time, could only be implemented by sales of large quantities of medium and long-dated government bonds.

Since about 1975, when the foreign exchange market in particular became concerned about excess monetary expansion, the British government has often had to resort to heavy sales of medium- and long-dated bonds to bring about a sharp slowdown in money growth. When the Labor government moved to achieve stated monetary targets — a move followed by the present Conservative government (but less successfully) — this particular pressure on long-term yields became constant.

The U.S. bond market clearly has not been free of problems over the past few years. It, too, has been under pressure from increasing deficits and worsening inflation expectations. These difficulties may appear more permanent than temporary at present, and obviously have done some damage to the corporate bond market; but there is no reason why the damage should be permanent.

In support of this contention one can cite the prompt and substantial issuing of U.S. corporate bonds that occurs whenever there is either an easing of rates or a pause in government financing. Hence, though one cannot minimize the problems that the present situation entails for corporate balance sheets and the economy, the present condition of the U.S. corporate bond market must be viewed at the moment as a temporary deterioration, with a return to the better condition of former times still possible. Past conditions could return if government economic policies succeed in curbing deficits and inflation.

One qualification should be made to this. The development in the United States of credit lines that allow firms access to funds, regardless of market conditions, may encourage U.S. firms to follow British practice. But this is probably a minor influence, particularly in view of the callability of most U.S. corporate bonds.

If U.S. deficits remain at their present size, and are monetized, inflation will remain a major problem and the U.S. corporate bond market will remain stagnant. But the same will be true for government bonds. If inflation remains high and erratic, bonds the world over, be they corporate or government, will be short of takers.

Even a modest measure of success in reducing inflation will revive the U.S. corporate bond market. In contrast, the British corporate bond market must await a far greater decline in yields and clearer evidence that techniques of monetary control will in the future bear less heavily on the bond market, together with the removal of such inhibiting factors as the special tax treatment of government stock and lack of callability.

Bill Foy and Geoffrey Wood are in the government bond department of Buckmaster & Moore.

EUROMARKETS

What Wider Future Is There for Formal Credit Ratings?

(Continued from Page 7S)

have issued rated debt in the United States. Underwriters often advertise such a Yankee bond rating in the invitation telexes for a prospective unrated Eurobond issue if the rating is good. The unstated implication is that the prospective Eurobond would carry the same rating; but this will not necessarily be the case.

A subordinated offering by the same issuer would be rated lower. In addition, the rating could change as a result of the new debt issuances. It is unlikely that the underwriters would similarly disclose the U.S. rating of a prospective Eurobond issuer if the rating were not good. In fact, it is common knowledge among the participants that certain names can get better market reception in Europe than indicated by their U.S. ratings.

Potential Hazard

The absence of a formal rating system for Eurobonds and for the foreign bond markets outside the United States poses a potential hazard to investors in those markets. This is simply that ratings will be used mainly when they serve the interests of the borrower, in contrast to their use in the United States, where they serve principally the interests of the investor. Based on the U.S. experience, it is unlikely a formal rating system will be firmly established in international markets without a clear market signal, such as Penn Central. Consequently, Standard & Poor's has chosen not to impose itself on the non-U.S. markets. It continues to rate issues in those markets only on request.

European market participants often ask how we can rate sovereign borrowers using the same rating categories as those used for corporate and municipal borrowers. They are even puzzled that the 13 sovereigns rated as borrowers or guarantors for U.S. obligations are, and have always been, rated "AAA" by Standard & Poor's. Our approach contrasts sharply with the increasingly popular country risk horse races run by reputable international magazines in which, to much applause at six-month intervals, one country edges another out for the top spot. Therefore, some conclude that we must rate sovereign government debt "AAA" simply as a matter of policy. This is definitely not the case.

Standard & Poor's rates as issuers or as guarantors the obligations of the following countries: Australia, Austria, Canada, Denmark, France, Finland, Japan, New Zealand, Norway, Sweden, Britain, United States and Venezuela. It also rates "A-1" the commercial paper issued in the United States by Nafinsa, the Mexican government-owned development bank. Countries rated differently by Moody's, the other major U.S. rating agency, are Finland and Denmark, both rated "Aa."

Only a few top sovereign names have come to the markets with ratings. Those countries that have failed to get the "AAA" rating from Standard & Poor's have gone to non-U.S. markets or taken the private placement route. Countries that do not expect a top rating seldom approach us. That would change if more countries were to come to the United States market with lower ratings. Thus, we applaud the decisions of Finland and Denmark to issue debt with the split ratings ("AAA" by Standard & Poor's and "Aa" by Moody's).

'As the international markets understand formal credit ratings, they will overcome this love-hate relationship with the AAA rating.'

A sovereign government's rating reflects a careful assessment by Standard & Poor's of the country's economic ability and political willingness to repay the debt on time. The assessment follows a thorough study of the country, including direct and confidential discussions with the key economic and political decision-makers. Such meetings are also the basis for the annual rating reviews. The analysis is conducted by political economists assisted by analysts covering the industries that are significant in a given country. The rationale for the ratings is routinely published. Standard & Poor's recently issued reviews of Mexico, Denmark, France, Venezuela and Sweden. Our rating decisions are based on long-term structural and systemic factors rather than on short-term considerations or the latest press reports. In this respect, they differ from the six-monthly country risk rankings already mentioned, whose audience may be more interested in the short-term outlook.

The "AAA" category accommodates as great a diversity of issuers in the United States as overseas. Top-rated U.S. issuers include AT&T, Campbell Soup, J.P. Morgan and Denver. Top-rated non-U.S. issuers include Oslo, Stockholm, the county of Copenhagen and Norway.

Greater Acceptance

There is greater acceptance of this diversity in the United States because market participants recognize that there are specific reasons for each rating. Only 100 U.S. issuers in a rated universe exceeding 10,000 are rated "AAA." By contrast, about 40 of the 200 non-U.S. issuers carry the top debt rating. Another reason is the recognition of the role of credit ratings in the market. Credit risk may influence the way securities trade, but there is no reason why the way they trade should influence the issuer's credit standing; market prices may reflect important supply and demand considerations independent of credit quality.

Europeans have a love-hate relationship with the "AAA" category. Some potential issuers will not accept any other rating and, therefore, go unrated. Other market participants, presumably traders, would prefer greater distinction among the top rated issues. From surveys conducted recently for Standard & Poor's, we have found that investors in the United States prefer to have no distinctions made within the "AAA" category. We suspect that European investors would probably have the same preference. The wide disparity among the "AAA" rated entities derives from the celestial nature of this rating category: An issuer must pass a threshold of creditworthiness to enter it, but there is no higher category to go to. Once in heaven, all are equal.

As the international markets understand formal credit ratings, they will overcome this love-hate relationship with the "AAA" rating. The non-U.S. investor will recognize the unfairness of hearing only about the good ratings. The relatively less-known issuer who has a good story to tell will learn about the benefits of a rating. And the markets in Europe will accept the notion that a credit rating is only one factor that affects the way a security trades and that rated securities might trade in narrower ranges if formal credit ratings become an established convention outside the United States.

Mahesh K. Kotecha is a vice president of Standard & Poor's Corp.

The SDR Revolution Speedy and Smooth

By Lawrence de V. Wragg

LONDON — Just over a year ago, the International Monetary Fund announced its plan to simplify the structure of its Special Drawing Right, the currency cocktail in which it denominates its inter-government loans and borrowing. In 12 months, the international banking community has witnessed a speedy — yet smooth and efficient — revolution. The SDR has achieved the status, in that short space of time, of a familiar component of the international commercial banking system, and its use in syndicated loans has virtually reached 1 billion.

In January, seven international banks — Barclays, Midland and National Westminster of Britain, Chemical and Citibank of the United States, Standard Chartered and Hong Kong and Shanghai for the international commercial banking community — established a market in SDR certificates of deposit (CDs).

This development was greeted by public expressions of interest from investment banks and brokers in participating in the new market, and that participation — particularly the quotation of SDR CD rates on the Reuters system — has been helpful to the growth of the market.

Despite the powerful counterattraction of higher U.S. dollar interest rates, and a strong dollar (which gave a positive yield pickup over the SDR without any foreign exchange loss during the first half of 1981), the SDR CD market has grown from about 50 million SDRs in December, 1980, to an estimated 500 million to 700 million SDRs by October, 1981.

Short-Term CDs

Short-term SDR CDs have found ready acceptance with issuers and investors. The volume of CDs placed in well under one year already exceeds the total volume of SDR bonds and notes ever issued over the previous six years.

The SDR loan market was given an impressive debut by the decision of Sweden to include an SDR tranche in its first large syndicated loan of 1981. When the loan was signed in April, the SDR tranche had reached 500 million SDRs (compared with an original target of 150 million SDRs) alongside a U.S. dollar tranche of $800 million.

A month later, the Ivory Coast became the first developing country to borrow SDRs when an SDR tranche equivalent to $50 million was included in its $250-million financing.

The first all-SDR loan (that is, without any dollar tranche being involved) for 47.5 million SDRs was signed in July for CADAFE, the Venezuelan electricity authority. It also represented the first use of SDR financing by an OPEC country.

At the time of writing, a second all-SDR loan for FENOSA, the Spanish power utility, has been brought to the market, with an amount of 100 million SDRs, and a major financing for NAFINSA, the Mexican state developing agency, is split equally between SDRs (220 million) and dollars (250 million).

Increased Volume

It is to be expected that by the end of 1981 the volume of SDR syndications will have increased from the present level of about 900 million SDRs to the 1 billion mark — not unsatisfactory progress for the first year.

There are a number of comments that should be made about the development of this market. First, the strong (and expensive) U.S. dollar has much enhanced the attractiveness of the SDR to potential borrowers during 1981, and interest rate savings (without any significant offsetting foreign exchange loses to date) have ranged between 150 and 300 basis points.

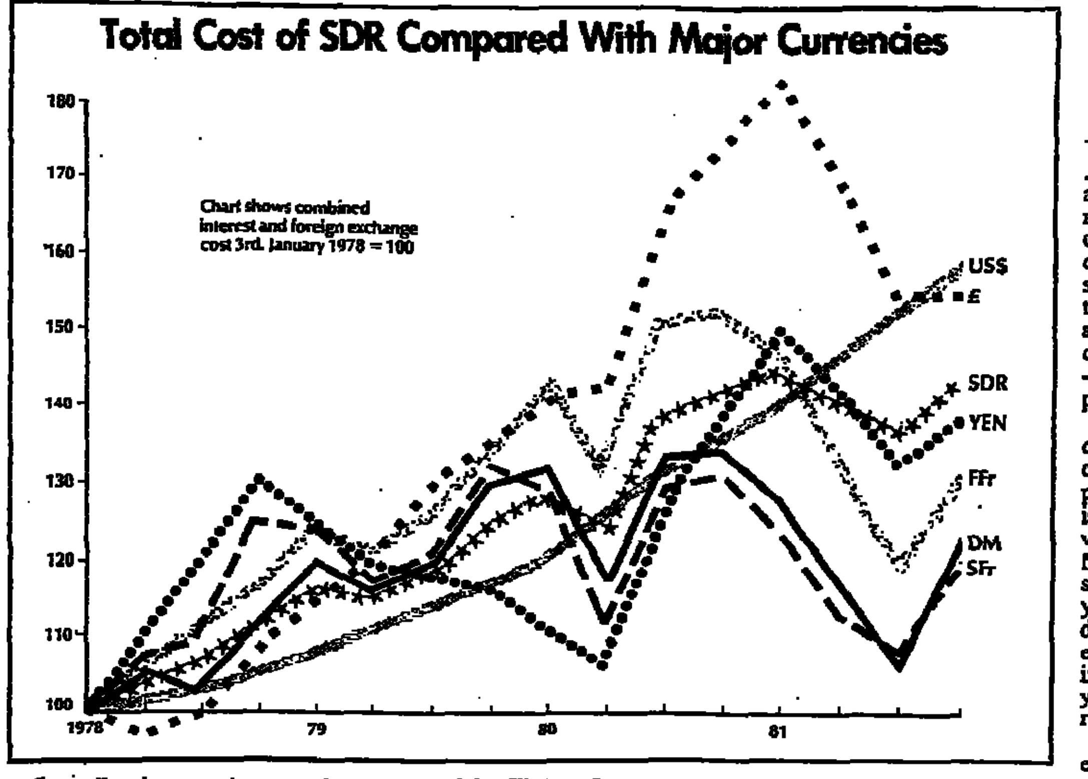
Secondly, there has been interest shown by developing countries in borrowing SDRs, in line with market realization of its value to such borrowers as a means of reducing debt service costs.

Thirdly, the SDR loans and SDR tranches concluded or under negotiation so far have been priced at market rates. There is no reason for a borrower to pay extra fees or spreads for the advantages of borrowing SDRs.

Fourthly, loan documentation has developed quickly to broadly standard structures and drafting. SDR loan agreements do not need to be more complex than their U.S. dollar counterparts, and indeed are now simpler and shorter than Eurocurrency agreements involving multi-currency clauses.

Development of the SDR market and the growing number of banks involved has helped the development of the forward foreign exchange market in SDRs. It is now possible to buy or sell SDRs forward against U.S. dollars for periods up to a year (including broken periods) and in amounts up to 40 million to 50 million SDRs. This year has also seen the beginning of broker-negotiated forward foreign exchange transactions in SDRs.

In practice, this market seems to be used at present by two major groups of participants. First there are banks who have SDR assets (loans or CDs, for example) and who are funding them using a combination of dollar deposits and US-SDR hedging through the forward market. This technique is particularly useful to banks who have not yet fully developed in-house SDR dealing expertise, or expect to be active relatively infrequently.



Secondly, there are investors in SDRs who use the forward market to get into or out of SDR deposits in accordance with their reading of market developments. For example, an investor who expects to receive funds (in dollars) in two months and to put these funds into an SDR deposit, and who expects the dollar to depreciate against the SDR over that period, will buy forward the SDRs to establish the deposit, and thereby obtain a favorable dollar-SDR rate.

In the same way, an investor with an SDR asset (deposit or CD, for example) who must make a payment in dollars some months ahead, and who expects the dollar to appreciate against the SDR during that period, will buy forward the dollars needed.

Further potential exists in this market to use short periods (say, seven days up to one month) to hedge trading inventories of short-term SDR paper held by institutions with access to dollar funding at advantageous rates (that is, below normal interbank rates) who require only to hedge over a short period their foreign exchange exposure.

It might well be asked why there is a forward foreign exchange market in SDRs but no spot exchange market. The answer is that spot SDR transactions always arise against the issue of maturity of some SDR instrument (for example, a CD) or in respect of SDR interest payable. Therefore the use of a transmission currency (frequently dollars, but in principle any available and convertible currency) against the instrument concerned is wholly adequate in practice.

True spot transactions (such as may be carried out between dollars and Deutsche marks) do not exist in SDRs, for two main reasons: A commercial payment cannot be made in SDRs, and no one can hold a current account balance in commercial SDRs. In consequence, there is no point in spot SDR deals unless they are linked to a particular instrument.

With one exception, all SDR transactions are settled by the use of a transmission currency. If a depositor moves an SDR deposit from one bank to a second bank, the first bank repays the depositor the dollar value of the SDR deposit, which the depositor then transfers to the second bank to establish the new SDR deposit.

The exception is for transactions within Euroclear, the Brussels-based Eurobond clearinghouse, where it is now possible to settle purchases and sales of SDR denominated paper (e.g., bonds) in commercial SDRs. Euroclear operates accounts in SDRs and will credit or debit an investor's account following a transaction.

However, for the investor either to put the SDR account in funds, or use a credit balance to purchase a non-SDR asset, a foreign exchange transaction is necessary. This service is now provided only by Morgan Guaranty, Brussels, acting as a contact between the Euroclear system and the outside world, through a system of SDR current accounts, one of which is held by Euroclear.

That application now has a low-volume of use, but it demonstrates the difficulties in developing an SDR clearing system in the absence of a central bank or monetary authority able to clear balances between different banks, and to provide additional SDR funds or absorb surplus SDR funds in the system. In these circumstances, it will be more straightforward to settle SDR transactions using transmission currencies that are well-understood and simple in bookkeeping.

Lawrence de V. Wragg is an executive director of Chemical Bank International.

The Good Life Is Even Better At IMF Meeting

Special to the IHT

WASHINGTON — A question of confidence may explain the lavish entertaining throughout the day at the recent International Monetary Fund meeting. There were also a dozen or so "expense no object" pre-dinner receptions each evening, private banks outbashing each other at leading restaurants and hotels or at museums and galleries (Bank of Chicago at the Corcoran, First Bank of California at the Textile Museum, Bank of Brazil at the Mellon).

The U.S. Treasury received at — where else — the National Gallery.

With little or no non-Western cuisine (but then, for reasons no one could explain, few of the guests seemed to be from the IMF's 80-odd African and Asian member states), overloaded buffets offer huge sides of hot beef, all kinds of cold cuts, fresh fruit and vegetables, endless rows of canapes, the very best of alcohol in every known form, and crushed-ice mountains covered with oysters. "We get through a couple of thousand of these a night," one of a team of oyster shuckers explained.

Oysters must be a key ingredient to clinching all those deals, let alone steering bankers toward other bankers they came to look for. "Our bank has a team of 10 fanned out to the parties," a top Canadian banker said, "each with a list of whom they should get to talk to."

Japanese Convertibles a Mystery

By Jean A. Smith

LONDON — The Japanese convertible Eurobond market has absorbed a total of $3 billion of new issues in the first nine months of 1981, roughly twice as much as during the whole of 1980. Yet in spite of these impressive statistics the Japanese convertible market — and even more so, the European depository receipt (EDR) market — remains a mystery to most people.

The main attraction of Japanese convertibles lies in the option to convert into the equity of the company on terms fixed at the time of issue. In the case of Japanese convertibles, this entails not only a fixed price for the shares (conversion price) but also a fixed dollar-yen exchange rate. A calculation to determine parity — the current equity value of the bond — also involves the current share price in yen and the dollar-yen exchange rate.

Japanese convertible bond prices tend to trade around parity, according to market conditions. Substantial discounts to their equity value rarely occur because these bonds can be converted or "arbitraged."

Recent trends in the pricing of these bonds have served to emphasize their particular characteristics as equity investments. Firstly, the Japanese Ministry of Finance has lowered the minimum conversion premium from 10 percent to 5 percent; and secondly, coupon rates have also gradually fallen. A borrower of the caliber of Canon paid a coupon of 6¾ percent last November. This September, Fujitsu Fanuc, an exciting company in the robotics business, set a record low at 4½; and nevertheless, the issue was quickly placed.

Lower Coupons

Lower coupons point to one reason why the number of borrowers coming to the market accelerated in August and September. In Japan, the coupon rate is determined according to the company's capital base; in Europe it is fixed on the basis of the reception it is likely to receive from investors. Thus a company such as Fujitsu Fanuc, which is young but much in demand with overseas investors, will escape with a much lower rate. In addition, if bullish expectations for the yen over the coming years are fulfilled, a coupon payment in dollars may work out cheaper still.

It is important to note that, although Japanese companies have been borrowing heavily in Europe in 1981, this is only relative. Tokyo has seen over 1 trillion yen of equity issues this year. New convertibles and EDRs represent an attempt to spread the load for a small percentage of the company's total financing requirement.

New domestic equity issues are not available to foreign buyers, and there has been rising demand for Japanese equity abroad. Therefore, it is logical to issue a proportion of an equity offering in Europe, in whatever form may seem preferable. For instance, securities houses with a particularly large buying interest from an Arab investor have encouraged their clients to issue EDRs tailor-made to that demand.

A question of prestige may also be involved. This was traditionally regarded as the prime motivation for issuing EDRs. EDRs usually represent 1,000 shares. They are priced and quoted in dollars, and are convertible into the equity of the company. They are often issued at a 5-percent discount to the prevailing share price in Tokyo.

Attraction for Investor

Issuing EDRs may be more expensive for the borrower but, for reasons mentioned above, companies may still find it preferable. Almost $450 million of EDRs has been issued this year.

If issuing convertibles is cheaper for the borrower, can they still hold any attraction for the investor? The initial success of such issues as Fujitsu, which was chased up to an 8-percent premium over the issue price (which already incorporates a premium to the equity), seems to indicate that they can.

To the long-term investor, the attraction lies in the increased yield of the coupon. In comparison, dividend yields in the Japanese market are usually minimal. Although the coupon on Hitachi was fixed at a then record low of 5¼ percent, it still compared very favorably with the 1.16-percent yield on the equity. After a period in the secondary market, conversion premiums are often low — the average in normal market conditions is about 1½ percent — so there is little disadvantage on that front.

The short-term holder, to whom increased yield is less important, will have other requirements. With accurate timing, it is possible to maximize capital gains by taking advantage of a rise in the conversion premium of the bonds. For example, a buyer of Murata's 5.25-percent bonds of 1996 would have shown a profit at one time of 17½ percent, compared to 12 percent on the shares because of a rise in the premium.

EDRs are attractive both to long- and short-term holders. The former regard EDRs as a cheap equity offering. The latter may use the discount on the offering as a basis for arbitrage, again increasing capital gain. Though a secondary market does exist in EDRs, most holders prefer to convert rather than sell the shares at a discount. In our experience, comparatively few convertible holders will convert where a secondary market exists for the bond.

Needless to say, buying a convertible is not without its disadvantages, the principal one being illiquidity. While the turnover and scope have notably improved together with the market's growing popularity, it is still undoubtedly true that, in difficult market conditions, trading in size may present difficulties. Theoretically, the yield on the bond should provide some downside protection, with premiums simply growing as the equity value falls. In practice, the current increasing differential between straight bond and convertible bond yields means that the bond will have to stand at roughly 40 percent of its issue price for this hedge to come into effect.

On balance, then, does the borrower's predilection for the market match the investor's? The honest answer must be: No.

Examples of near-disaster that spring to mind are the simultaneous issues for Dainippon Ink, which lost 20 percent in the first few days, and Hazama Gumi, which opened trading 4-percent below its issue price before shortly falling a further 6 percent. A falling market and flood of new issues at the time masked more fundamental shortcomings.

The Japanese equity market has attracted foreign interest, by and large, in certain favored sectors; and correspondingly, the appetite for convertible bonds in those sectors seems almost insatiable in good market conditions. It would take a great deal more than a 5-percent income yield to encourage genuine foreign investors to adopt an equity holding that they would otherwise never consider. A few months ago, a broad spectrum of Japanese borrowers rushed pell-mell to take advantage of increasing interest in Japan. But the rush was both indiscriminating and blind to the investor's real requirements.

Corporate Client

Cynics would say that some deals were brought solely to sweeten the corporate client in Tokyo, irrespective of market conditions. Only one of the new issues brought in a rapidly worsening market in September was withdrawn; and that (significantly?) by a non-Japanese lead-manager. Inevitably, it is the middlemen who suffer in this fundamental conflict of interests — in most cases, the underwriters, who (misguidedly, it seems) rely on the manager's supporting and adjusting the deal in bad market conditions to cushion them and the investor. Following the painful failure of many recent new issues, one hopes that the pressure of popular opinion will bring about a more realistic environment.

Until the conflict is resolved, it will pay to be selective when buying convertible bonds. Having said that, both the long- and short-term borrower can benefit from the particular attractions of EDRs and convertibles. Short-term hiccups apart, the fundamentals are still right to make Japan one of the exciting markets of the present and of the future.

Jean A. Smith is an account executive at Cresvale International Ltd.

European Currency Unit Displays Strength in Passing Early Tests

By Andre M. Coussement

LUXEMBOURG — The European Monetary System was launched in March, 1979, with the creation of an area of monetary stability in Europe as its main objective. After two and a half years of existence, the results are generally considered to be positive, despite four realignments.

The European Currency Unit was to be the central instrument of the EMS. It was designed as a basket with a fixed amount of each member currency. These amounts were determined by weighing the economic, commercial and financial importance of the country of issue.

Apart from its role as accounting unit for several European Economic Community institutions, the ECU was given various roles in the EMS:

- To serve as a common denominator to define the EMS currencies.
- To serve as an indicator to monitor the fluctuations of the currencies.
- To serve as an accounting device for denominating the 20 percent of the reserves of the EMS central banks deposited with the European Fund for Monetary Cooperation.

A longer term objective has been assigned to the ECU: to make it progressively the European parallel currency and eventually maybe even the European currency.

The first two steps towards these long-term objectives are the use of the ECU in the capital market and the creation and development of an active money market in ECU.

Borrowers and lenders, as soon as they leave their own monetary system, have always been conscious of the exchange losses they could incur when using a foreign currency to denominate their respective claims and liabilities.

In the Middle Ages, merchants from Amsterdam, Hamburg and other places used the *mark banco* or the *florin banco* as currencies of account. As late as 1871, in the agreement between Germany and France putting an end to the 1870 war, part of the war debt France had to pay to Germany was denominated in *mark banco* of Hamburg.

Gold has also been used as a currency of account. The Franc Poincare and the Franc germinal were used in the international agreements on air transport, in the accounting of the Bank for International Settlements, and others.

Other currencies of account, all of private origin, had little or no success, like the I.F.U., the B. unit, the Eurostable. The best-known unit of account is probably the one designed for the European Payments Union in 1950: the EUA, an indexed currency. It was linked to gold.

At the end of the EPU in 1958, some bankers conceived the idea of using this unit of account as the currency vehicle for international bond issues. The first issue in EUA was launched in 1961 for the Portuguese oil company Sacor. So far, 96 bond issues have been launched in EUA with an equivalent value of more than $2.5 billion.

Latest Unit

Special Drawing Rights have become a currency of account for International Monetary Fund transactions and even for the denomination of Eurobond issues and international credits.

Nine issues have been launched in SDR since the decision of the IMF to reduce the number of currencies in the basket, but none since Jan. 1, 1981.

The ECU is the latest basket unit. For a European currency-based investor, the ECU offers a very good hedge against exchange risks. Basket-type units like the ECU and the SDR spread the risk among the component currencies, while indexed units like the EUA will eliminate single revaluations or devaluations.

Four bond issues were launched in ECU between April and October of this year, for an equivalent total of $150 million. The good quality of borrowers — like European Investment Bank, Hydro Quebec and the Italian telecommunications group STET — attracted all kinds of investors, both institutional and private. Moreover, the internationalization of the placement was insured by diverse syndicates of foreign banks.

A delicate but very important factor for a successful placement of ECU bonds is the pricing. Should the yield be equal, higher or lower than the weighted average of the yield of the component currencies? Borrowers will argue that the protection through currency diversification should call for a lower yield, whereas investors, especially the big institutions, will see no interest in such a formula, as they are able to make their own basket. The weighted average is in any case a very good yardstick. Demand and supply should determine how much below or above this mean the pricing could be done.

ECU bonds are not only a good investment for private investors looking for an efficient hedge against exchange risks and a fair yield. For the institutional investors — central banks, government agencies, pension funds and others — the ECU has the advantage of EEC support. It represents a collective agreed-upon judgment for those who think they should diversify but are scared to rely on their own judgment.

Money Market

By far, the most important trade-off for the investor is the present lack of liquidity. This should be improved by the development of the ECU money market. The introduction of a new clearing system could also enhance liquidity.

Several banks in London, Brussels and Luxembourg are daily quoting bid and offered rates for short-term ECU deposits. But it remains difficult to on-lend deposits and most of these banks split the ECU deposits in their component currencies and replace them in the money market.

Multinational companies like Saint-Gobain-Pont-a-Mousson introduced an ECU inter-company billing system for its foreign subsidiaries. This successful experience could attract new participants and enhance this new market. Other initiatives such as the issuing by the French Credit National of ECU-denominated short-term notes has also spread the use and the knowledge of this money market instrument.

But banks hesitate to come into this market because the lack of a clearing system imposes burdensome administrative paperwork. They have to either open new accounts with other banks participating in the ECU market, or they have to split every deposit into its component currencies, lend them on in the money market and keep a separate accounting system for all these operations.

The introduction of a clearing system would of course be tremendously helpful. But should this clearing system be entrusted to an existing institution? Should its service be limited to a simple clearing or should it provide short-term overdraft facilities?

An important innovation that accompanied the launching of ECU bonds was that bonds were made payable and redeemable in ECUs. Even interest payments will be made in ECUs. This of course also helps to develop the ECU money market, because investors are induced to open ECU accounts with banks and to participate for reasonable amounts in this market.

A perfect parallel currency is a currency accepted widely by the private and public sector as a unit of account, a means of payment and a store of value.

Sterling fulfilled this role perfectly during the latter part of the 19th century and until World War I. The U.S. dollar then took over and still remains the unquestionable and unchallenged vehicle for all major commercial and financial transactions.

But the volatility of the dollar in the foreign exchange markets has eroded its leading position and some new parallel currencies appeared. Other Euro-currencies like Deutsche mark and Swiss franc attract people who are more confident in their own judgment to expand their possible gains; artificial currencies like the SDR, ECU, EUA, are probably better adapted for those who want to limit their exchange risks and losses without incurring headaches.

The ECU, as it is constructed, had the built-in possibility of becoming gradually an acceptable currency for both borrowers and lenders. It also has the official backing of the EEC.

But all that is not sufficient.

Borrowers and lead banks should offer realistic conditions to the investors, avoid congestion and organize a liquid secondary market. They should pursue a proper marketing policy with all participants. Governments of the EEC member countries should encourage the use of ECU by their nationals, lifting as much as possible foreign exchange controls. They should consider the ECU as equal to the national currency for insurance companies, pension funds and others who have certain obligations to invest in national currency.

The ECU is facing the challenge. Only consistent efforts by all involved will make it possible to meet it.

Andre M. Coussement is a member of the board of directors of Kredietbank S.A. Luxembourgeoise.

EUROMARKETS

A Look at a Borrower Country

Special to the IHT

LONDON — Brazil has a land area of 8,520,100 square kilometers, with 13,076 kilometers of land boundaries and a coastline running for 7,491 kilometers. The country is bordered by French Guiana, Surinam, Guyana, Venezuela, Colombia, Bolivia, Peru, Paraguay, Argentina and Uruguay. About 60 percent of Brazil is covered by forest, 4 percent is cultivated, and pasture land accounts for a further 23 percent. The population is estimated to be in the region of 120 million.

The country gained its independence from Portugal in 1822, and since 1964 has been ruled by a military-backed Presidential regime. Free elections will be held in 1982. Any alteration in this plan would now result in a colossal loss of face and undoubtedly in a swing for the wrong political direction to the right. Brazil's sheer size has resulted in its being a financial sponge for decades, soaking up all it could from whatever source was available.

The country enjoys a mixed economy with agriculture accounting for 15 percent of gross domestic product, manufacturing industry accounting for a further 17 percent and mining 2 percent. The main agricultural products are coffee, rice, beef, soyabeans, corn, milk and sugar cane. Major manufacturing industries include textiles, chemicals, cement, lumber, steel, motor vehicles and other consumer goods and various metal-working industries.

Vast natural resources have enabled the country to enjoy a high rate of economic expansion, but there has also been a high rate of inflation. The only major natural resource Brazil is short of is oil, and petroleum exports during the first 10 months of this year were equal to 46 percent of exports.

Brazil has enjoyed positive growth every year since the military government came to power in 1964. However, the price in terms of inflation has been high.

Recently there has been a dramatic shift in economic policy with the prime objective being to reduce the trade gap. The current year is now expected to show close to zero growth in spite of positive growth being achieved during the early part of the year.

Foreign Debt

Brazil's foreign debt, according to the central bank, amounted to $56.15 billion at June 30, 1981. Current estimates are that it will rise to $60 billion by the end of the year. So far this year, $13.25 billion has flowed into the country. Brazil's government consolidates both public and private sector debt, which in turn tends to produce distorted and somewhat alarming figures.

The foreign debt profile of Brazil reveals that the ratio of public sector borrowings to private sector debt is in the region of 2 to 1. During 1981, Brazil will repay $7,661.5 million of debt, of which $3,352.9 million was repaid during the first half of the year. This means that, at least in the second half of the year, amortizations will amount to $3,607.4 million.

A fall in interest rates would indeed be a windfall for Brazil. Every ½ percent fall in interest cost in the London interbank offered rate (Libor) would result in an annual interest saving to Brazil of at least $500 million per annum. During the past year the short-term debt of Brazil has risen sharply, but figures relating to loans with a maturity of 12 months or less are not published.

Inflation is slowing down. The 4.4-percent rate for October resulted in the moving 12-months average declining from 109.8 percent for the year ending Sept. 31, to 103.4 for the 12 months ending Sept. 31. Money supply figures for October were not available at the time of writing, but those for the year October, 1980, to September 31, reflected an increase of only 61 percent. Domestic lending and leasing operations have been subject to increasing regulations as the year has progressed.

Consequently, industry is turning more and more to overseas funding, which naturally is more hazardous for borrowers as they are forced to run an exchange risk. Economically, Brazil has steered a careful course this year, aiming to balance its trading account. In September, the country erased its trade deficit for the first time in four years. The first 10 months of 1981 produced a trade surplus of $601 million. Exports during the period jumped by 17.1 percent to $19.1 billion, while imports fell by 4.1 percent. The latter is because of the sharp decline in economic activity induced by tight credit controls linked to a rigid import program.

Export Gain

The gain in exports is even more remarkable in the wake of the current world recession for three primary products — coffee, cocoa and sugar. Coffee sales for the first 10 months were down by no less than 36.5 percent. Soybean meal and cake exports, on the other hand, were 65 percent higher at $1,031 million. The priority on correcting the balance of payments has forced the government to follow a recessionary policy.

The National Alcohol Program (Proalcool), which will cost $5 billion, aims to replace 45 percent of Brazil's gasoline consumption with alcohol by 1985. The program has already made a dramatic impact on the Brazilian motor industry. In 1980, 250,000 vehicles manufactured in Brazil were designed to run on straight alcohol.

Devaluations this year have been at a very much faster rate than has been witnessed in the past. Between January this year and Nov. 13, the cruzeiro was devalued against the U.S. dollar no less than 30 times and by a total of 78.5 percent; the corresponding figure for the same period last year was 44.5 percent.

Account Deficits

The September issue of Morgan Guaranty's publication, World Financial Markets, pointed out that Brazil was one of the few developing countries that is not currently witnessing a trend toward larger current account deficits. This is a particularly interesting observation, as Morgan Guaranty was very critical of Brazil's economic tactics at the beginning of 1981.

Euromarket Emerges From a Tumultuous Adolescence Into a Period of Restrained Growth

(Continued from Page 7S)

about half the $112 billion surplus of 1980, and likely will fall to $45 billion in 1982 — the result of reduced oil sales to the economically depressed industrialized countries, the increased rundown of stockpiles by oil companies seeking to avoid the high cost of storage and the decline in the real cost of oil as the price per barrel has failed to keep pace with the level of world inflation and the rise in the cost of OPEC's imported goods and services.

OPEC's reduced surplus is of course good news; it means the oil deficit of the importing states has been reduced. But this improvement, the experts believe, is confined to the major industrialized states. The oil bill of the developing countries, where economic growth remains relatively high, is expected to be little changed from the $97-billion deficit estimated by the International Monetary Fund at midyear.

The critical question now is how much of the slowed growth in the Euromarket's asset base will be translated into a slower desire or willingness by banks to go on lending to the deficit countries, especially to the already very heavily endebted developing countries.

The market's seemingly infinite ability to lend, to create credit, to finance inflation as well as speculation on the foreign exchange market was at the root of officialdom's displeasure at its hectic growth during the 1960s. The fact that all this was happening outside the direct control of any official monetary authority was a source of endless official despair.

But the mood changed radically in 1974, following the first "oil shock" and the quintupling of the well-head price. The Euromarket's capacity to make loans was then turned into a virtue called recycling — taking deposits from OPEC and lending to governments from Argentina to Zaire, enabling them to pay for their imports without having to seriously curtail their standard of living. That Euromarket credit might fuel inflation or be used to finance speculation on the foreign exchange market became a less important worry than seeing to it that the oil price increase did not pull the world into an economic depression.

Today, the recycling process has expanded beyond the mere shifting of oil exporters' surpluses and includes transforming savings generated in industrial countries to deficit countries. U.S. banks, in particular, have been big suppliers of funds — supplying $15.2 billion of new money in the second quarter, up from $6.9 billion in the opening three months of the year.

To criticism that this intermediation has weakened the banking industry by making it vulnerable to financial and political upset in the Third World, bankers insist that losses on international loans are a fraction of their losses on domestic business and, more importantly, that their exposure to these countries is small when put in context of their overall business.

International lending represents some 16 percent of total lending by Western banks. Loans to non-oil developing countries account for about 30 percent of the international loan portfolio of the banks; loans to Eastern Europe and OPEC countries each account for just under 10 percent of the total.

The two largest non-OPEC developing countries — Mexico and Brazil — account for just under 40 percent of the banks' total exposure to this group. The 10 largest NOPECs account for about 70 percent of the NOPEC loan portfolio and the 20 largest account for about 85 percent. Bankers insist these are the most creditworthy of the developing countries.

Supervision

While still outside the control of any official body, the Euromarket has come under increasing supervision as banking authorities in Europe and North America coordinate and intensify the way they look at the books of banks. There is now agreement that bank regulators will look at the worldwide assets and liabilities of their banks on a consolidated basis to assure that the key measures of health conform to the norms established domestically.

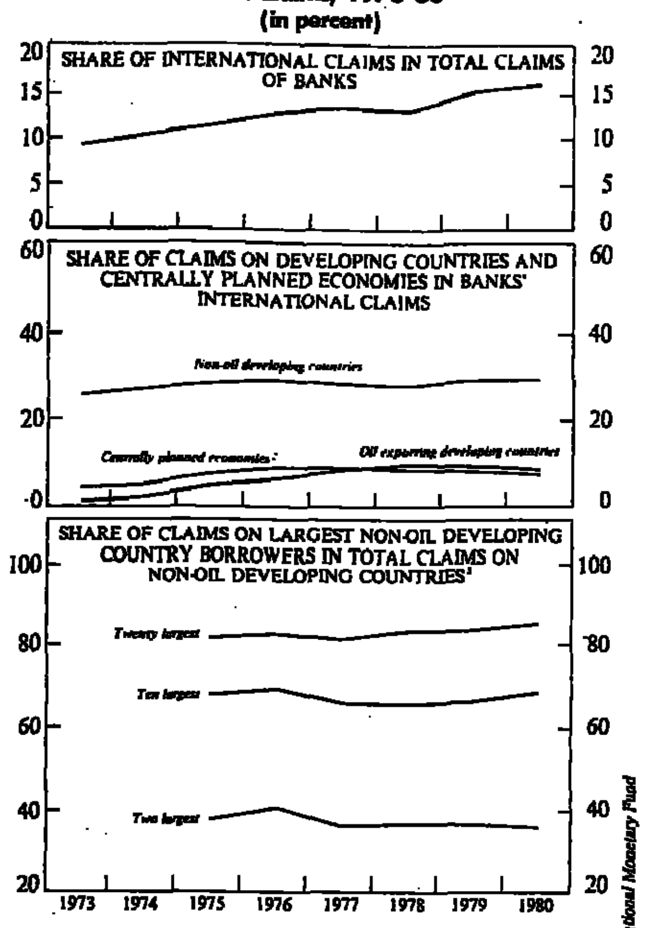
As a result, West German and Swiss banks have virtually ceased taking on new business, awaiting regulators' reaction to the consolidated data. Frankfurt bankers expect that it may take until next March before they have some idea whether they can go on building their international activities or whether they need to cut back further.

In the meantime, the dollar financial credits that West German banks used to arrange for Third World borrowers to accompany the export credits for goods purchased in Germany are no longer being made. Providing the financial credits was often the "sweetener" German exporters were able to offer to help win the business. Frankfurt bankers say these are rarely needed now in light of the depreciation of the Deutsche mark and the resulting improvement in the price competiveness of German goods.

In the rare cases where the banks are called on to supply financial credits, the West German banks are passing the business to U.S. banks, who complain of the extreme difficulty of breaking into the domestic market and delight at the opportunity to show their prowess to German industrialists.

Nevertheless, the problem for virtually all banks is that the size of their balance sheets has been growing much faster that their capital base. If this continues, they one day will have to either curtail the growth of their balance sheet or increase their capital base. Increasing the base will not be easy. Inflation and fierce international competition have cut profits — and self-generated capital growth — and generally depressed stock markets have made it difficult for them to raise capital by issuing new stock.

Concentration of International Bank Claims, 1973-80[1]
(in percent)



[1] Banks in the Group of Ten countries and Austria, Denmark, Ireland, and Switzerland; excludes interbank transactions within the reporting area.
[2] Excludes Fund member countries.
[3] Data for 1973–74 are not available.

Chart: International Monetary Fund

For European banks, the question of capital adequacy has been intensified because of the recent sharp rebound in the value of the dollar. A capital base expressed in Deutsche marks, Swiss francs, sterling and the like left plenty of room to take on international business denominated in U.S. dollars over the past decade. Some 70 percent of Euromarket business is transacted in dollars.

But as the dollar has shot up in value during the past year, the value of these dollar assets now totals a much greater share of total domestic capital than a year ago.

While bankers are constantly reviewing how much developing country debt they are willing to carry on their books, the Europeans suddenly found their exposure increased by 20 percent or more just because the dollar value of this debt expressed in the bank's domestic currency soared by that amount.

It should come as no surprise, therefore, to learn that lending to developing countries is slowing quite sharply.

The deceleration is masked by the fact that lending to non-OPEC developing countries set a record in the first six months of this year — $16.96 billion, according to Morgan Guaranty Trust, up 79 percent from the first six months a year ago.

But it is obvious from data published by the Bank for International Settlements that much of the first-half lending was simply refinancing of old loans that had matured because the overall exposure of banks did not increase at anywhere near that rate. The BIS data shows that new borrowing to these countries during the first six months of this year totaled $13.4 billion — almost half of the $24.7 billion registered in the second half of 1980 and $1.4-billion below the amount raised in the first half of 1980.

Moreover, the BIS report on first-half activity noted that the acceleration in new borrowing by non-oil developing countries in the second quarter "was brought about in large measure by countries outside Latin America ... New borrowing by Latin American countries increased only from $4.7 billion to $5.5 billion."

The BIS figures also reveal that as new lending to the NOPECs slowed, those countries began to dip into their reserves by running down the balances they had on deposit in the Euromarket. Their deposits totaled $87.5 billion at end-June compared to $91.6 billion at end-1980 — eating up almost all of the $5.5-billion increase in reserves made in 1980. Of course, this is what the reserves are for.

What is surprising — given the very large need for new financing — is that there has been no increase in the pricing (the spread, or margin, over the London interbank rate) of publicly syndicated Euromarket credits to entice lenders to make new loans nor any outcry from borrowers about their inability to find new money.

There are several possible explanations for this. At the start of this year, non-OPEC developing countries had $59.2 billion of unused credit commitments outstanding — amounts that could be called on at any time.

Another possible explanation offered by bankers is that there has been an increase during the second half of single-lender loans — unpublicized credits by one bank to one lender.

Two groups of lenders would be obvious candidates for this business — Japanese and Arab banks. The international activity of Japanese banks last year was sharply restricted by their Ministry of Finance to channeling short-term capital flows into Japan to help finance an $11-billion current-account deficit. This year, which had started with an official forecast of a balanced current account, is now expected to show a multi-billion-dollar current-account surplus — the result of a record high trade surplus. As a result, Japan is now looking for ways to shovel money out of the country to reduce its embarrassingly large and politically sensitive international surpluses.

The Arab banks are also very liquid — OPEC income may be down, but total assets accumulated since 1974 are very substantial. Lending out of Bahrain is estimated to have increased $3 billion in the second quarter alone.

Still, there is no getting away from the fact that there has been an overall deterioration in the credit standing of most borrowers. The debt-service ratios — debt-service payments as a percentage of total exports — are rising. The OECD estimates for this year that the ratio for Mexico is 60 percent, for Brazil 58 percent, for the Sudan 44 percent, Chile 45 percent, Peru 42 percent, Ivory Coast 39 percent, Venezuela 37 percent, Algeria 36 percent, Morocco 35 percent, Bolivia 33 percent, Senegal 28 percent and Argentina 27 percent. While there is no hard and fast rule, it is generally considered that a ratio of over 25 percent is cause for concern.

The ratio for Greece is 18, up from 13 in 1978. Spain's is estimated at 13, up from 10 two years ago. For Yugoslavia it is 20, up from 15 in 1978 and for Turkey it is 17, up from 14 last year.

Against this overall deterioration and combined with the mounting constraints banks feel about widening their commitments, it would appear certain that margins on syndicated Eurocredits are going to have to increase. But it is questionable whether even that concession will make available the sums developing countries are going to need. Bankers insist borrowers will have to rely more on official support — lending from the IMF and other intergovernmental agencies — and accept all the strings that may go along with that.

The World Bank is trying to breathe new life into its concept of co-financing as a way to encourage banks to commit new funds to the developing countries. The basic idea is to bring commercial banks into financing projects sponsored by the World Bank.

The idea, launched in the final days of Robert McNamara's presidency of the World Bank, never took off — in part because commercial lenders had their arms twisted to extend more favorable terms and conditions because of the link to the World Bank.

Officials of the World Bank deny they ever attempted to twist arms and suggest that perhaps borrowers tried to use the link to get better terms. In any event, there is a new effort afoot by the World Bank to inform commercial banks of suitable projects and to elicit their participation at market rates.

One remaining obstacle is how to reconcile the relatively short seven-to-10-year maturity of commercial loans to the much longer time needed for projects to begin generating the income to repay the loans.

But co-financing would serve two purposes: It would direct bank loans to useful ends (instead of just financing conspicuous consumption as too often happens) and would free the limited resources of the World Bank to be spread over more projects and into more areas, such as rural development, which would not be appropriate for commercial lenders.

Carl Gewirtz is the financial editor of the International Herald Tribune.

Association of International Bond Dealers Makes Its Name Known

By John Wolters

ZURICH — Mention the Association of International Bond Dealers (AIBD) to a person who is not involved in international banking or finance and you will usually draw a blank stare.

This low public profile is reversed, however, in banking and financing circles, where AIBD is widely known as the organizer of big international meetings and seminars, the publisher of market information and, importantly, the originator and custodian of a set of secondary market rules that help to keep order in an across-border secondary market for bonds.

In noting that it would be unthinkable, today, to be without these trading and settlement rules, it is interesting to add that with very minor exceptions, these rules have allowed for a smooth operation of one of the world's largest, and certainly its most widely dispersed, over-the-counter markets for international bonds.

The AIBD was formed in 1969, when 150 participants in the Eurobond secondary market decided that order had to be created in an increasingly chaotic market, where settlement delays were eating up or wiping out dealing profits to an alarming extent, and where it was not possible to digest new issues in the primary market because of disorganization and confusion in the secondary market. It was then that a handful of able people started working day and night to set up an association to formulate market rules and to foster the use and good functioning of the international clearing systems.

If one looks back at that first year and sees what was achieved by that brave and competent handful, it is almost beyond belief. By 1970, New York settlement delays were all but forgotten, a viable set of rules was in operation and the association was thinking of further ways to improve the common interests of its members and the markets. The fiery band of individuals who were the driving force behind AIBD still are household names in the market, even though some of them have not been associated directly with AIBD for many years.

Association Grows

After 1973, the association started taking off in numbers. By 1976, its membership had more than doubled from the original 150. Although there never was again the explosion of activities and tasks that occurred shortly after the founding of AIBD, the organization of meetings and seminars and the publication of market and bond details, members' registers and yield books had become such a burden on the individuals who were charged with these tasks in the board that, even though a large Swiss accounting firm had competently been taking care of much of the secretarial work, it was decided to set up a permanent secretariat.

The secretariat was in place in 1977 and has provided a smooth-functioning administrative center for the association, which by 1981 has grown to nearly 600 members and has an annual turnover running into millions of Swiss francs.

With the administration taken care of, the board could start to concentrate more effectively on its actual policy tasks. Its 17 members meet about four times a year to decide on membership questions, on matters brought by its committees, on major financial matters and on general matters relating to the market. Day-to-day matters are left to a seven-man executive committee, which meets about half a dozen times a year.

The board's committees deal with matters like settlement questions, legal matters that are market-related, market practices, primary market problems, education, regional affairs and liaisons with other markets. They are chaired by members of the board and are staffed with experts from the membership.

The committee dealing with regional affairs is made up of people from each of AIBD's twelve regions: the American region; Belgium; the Far East, France, Monaco and Spain; Germany and Austria; Italy; Luxembourg; the Middle East; the Netherlands; the Nordic countries; Switzerland and Liechtenstein, and Britain. Under the chairmanship of a board member, this committee allows sensitive matters to be discussed in the various regions and serves as a conduit for information and proposals coming out of the regions.

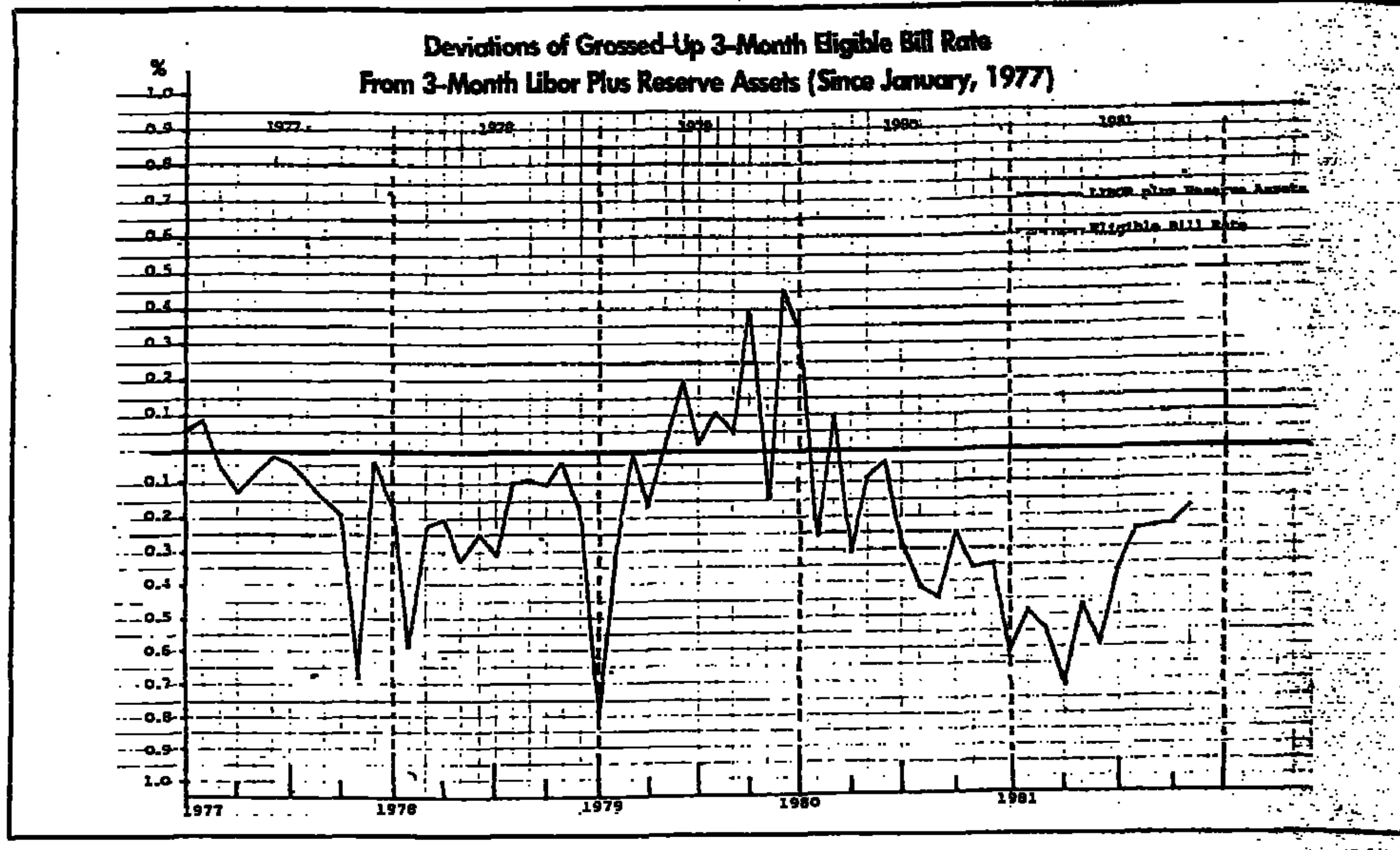
The education committee concerns itself, for the present, with the running of the now well-established Montreux seminars. These have produced 530 holders of the AIBD diploma. For those who have gone through an intensive 10-day seminar and about three months of prior preparation, the exam is no giveaway.

The association publishes monthly the price, yield, and other data on all outstanding bonds covered by AIBD rules. It also publishes a yearly manual of outstanding international bonds.

Following the publication for some years of a yield book, the association decided to sponsor a bond calculator, which enables extremely rapid and convenient calculations of bond yields on an AIBD or U.S. Treasury basis. Increasingly, the yield book proved insufficiently flexible; existing portable calculators were regarded as too slow and not programmed with Eurobond market operators in mind. To overcome this gap, AIBD asked Colne Instrument Co. Ltd. in England to manufacture 1,250 calculators for the association, which it now sells directly to its members. Once this sale is completed, probably at the end of 1981, Colne itself takes over the marketing of the AIBD bond calculator.

John Wolters is the secretary of the Association of International Bond Dealers.

EUROMARKETS



New Life Stirs in an Old Financing Tradition

(Continued from Page 7S)

that its open-market operations could be conducted smoothly, the Bank of England has encouraged an increase in the size and depth of the bill market.

Thus, not only did the bank increase its bill purchasing activity, so depressing bill discount rates in relation to interbank deposit rates, but last August it increased the number of banks whose bills are eligible for rediscount at the Bank of England. Previously, the list had consisted broadly of the clearing banks, members of the Accepting Houses Committee and the major British overseas and Commonwealth banks. The new list added 40 major European, Japanese and U.S. banks. Certainly the ultimate size of the acceptance credit for Petroleos Mexicanos syndication, which began on the day on which the enlarged list became effective, would not have been achieved had the number of eligible banks not been increased. Not only were new eligible banks eager to increase their acceptance activity, but other banks were motivated by a wish to become eligible, a prerequisite of which is to display a broadly based acceptance business.

A further boost to activity occurred when the Bank of England recently made a limited departure from the underlying principle that bills must be drawn in respect of short-term self-liquidating transactions involving the movement of goods. It let it be known that it is prepared to consider granting eligible status to bills drawn by foreign governments in anticipation of a sterling bond issue provided that the bills are not continuously in the market for more than six months. Foreign borrowers are already making use of this concession; in particular, New Zealand recently raised a £150-million acceptance credit falling into this category.

Generally speaking, the rules and practices that regulate London acceptance credits are very similar to those applied by banks in the U.S. market, although there are a number of distinctions. First, the restricted list of eligible banks nominated by the Bank of England's results in the market quoting a single rate for the acceptances of all of them. On the other hand, in the United States the far larger number of banks involved results in different rates being quoted depending upon their size and stature.

Secondly, as mentioned earlier, the London market has moved away from the practice of linking bills to specific transactions, whereas in the United States evidence of the goods being financed is required. Thirdly, bills drawn in respect of the internal trade of a foreign country are not eligible in Britain; this restriction does not apply in the United States. Fourthly, in the United States all national banks are limited by the comptroller of the currency as to the amount of bills they may accept. No equivalent limit exists in Britain, although the Bank of England's general rules on capital adequacy apply. Nevertheless it tends to treat acceptances more generously than commercial loans. Fifthly, the eligible bill is now the principal instrument through which the Bank of England regulates the money market, whereas other instruments are used for this purpose in the United States.

Discount Rates

As in New York, discount rates for eligible bills tend to be lower than interbank deposit rates. The accompanying graph covering the period from Jan. 1, 1977, plots the differential that has existed between bill discount rates (adjusted to reflect the fact that interest is effectively paid in advance) and the London interbank offered rate for deposits (Libor) plus the cost of maintaining mandatory reserve requirements (the latter tends to be in the region of one-eighth percent per annum and would usually be passed on to a borrower). The rate advantage in favor of bills is readily apparent; the distortion occurring in 1979 was largely caused by increasing recourse to the bill markets as normal lending was impeded by quantitative credit controls.

The fact that the effective cost of raising finance by way of acceptances has generally been lower than sterling loans linked to Libor also means that the all-in cost of raising finance by way of sterling acceptances, coupled with the conversion of the proceeds into dollars and simultaneously taking out forward cover, is lower than borrowing in Eurodollars at rates linked to Libor.

The sterling acceptance market is thus passing through a most interesting period of development and borrowers as far apart as Italy, Mexico, New Zealand and France are appearing — many for the first time.

Michael Comninos is a director of N.M. Rothschild and Sons.

Floating Rate Notes on the Rise

By Gordon S. Anderson

LONDON — The floating rate note (FRN) first appeared in the international capital markets in May, 1970, when ENEL, the Italian state electricity authority, raised $125 million for 10 years at a time when the fixed rate bond market was very unsettled and new issues of $25 million were being postponed due to the unfavorable market conditions.

Since then, both borrowers and investors have become increasingly aware of the benefits of the FRN market. In the last two years, FRNs have accounted for 30 percent of Eurodollar-bond new issue volume. The secondary market has remained active and relatively stable despite the unprecedented volatility of world financial markets.

The accompanying chart shows the movement of six-month London interbank deposit rates over the last two years and a representative level of secondary-market Eurodollar straight bond yields for seven- to 15-year maturities over the same period. Clearly the straight bond investor has suffered badly over the period. The yield on straight bonds has deteriorated steadily and the market value has shown significant unrealized losses.

Despite the volatility of interest rates and bond yields, the long-term investor in FRNs has not seen any serious erosion of capital and has benefited from the exceptionally high level of interest rates through semi-annual or quarterly readjustement of coupons.

The vast majority of all FRNs outstanding in the sector since the embryonic days of 1970 have traded between a low of 95 and a high of 103. This fact is particularly noteworthy during the last 18 months when six-month Eurodollar deposit rates climbed from 10 percent to 19 percent, and some Eurobond prices dropped as much as 20 points.

Fortunately markets have not been quite as volatile in 1981 as they were in 1980, but few would describe them as having been easy to judge. Precisely for that reason, the FRN market has continued to grow in volume and in structure, with banks, institutions and smaller investors increasingly active.

In comparison with straight bonds, the yield value calculations on FRNs may seem more ocmplicated to the investor accustomed to reaching for his bond yield tables or electronic calculator to check the yield to maturity. The very nature of FRNs precludes the calculation of a definitive maturity yield, but the FRN's major attraction is its adherence to short-term interest rates, and so the most convenient measure of value is the yield or margin that may be earned over the London interbank offered rate (Libor). Most issues have a stated margin (often ¼ percent)

Despite the volatility of interest rates and bond yields, the long-term investor in FRNs has not seen any serious erosion of capital, and has benefited from the exceptionally high level of interest rates...

at which the coupon for each interest period is fixed over Libor. Assuming the note can be purchased at a discount from par, the combination of this discount and the stated margin gives an effective yield over Libor for the life of the issue.

While the sophisticated investor will use the discounted cash flow method to calculate the effective yield, a useful and much quicker way is the short-form or simple method. The latter does not take into account the future value of money, but is widely used to assess quickly the relative yields of different issues. The short-form method takes the amount of discount from par at which the FRN may be purchased and divides the discount by the number of years to maturity. This figure is added to the stated margin to give the effective yield.

As an example of this calculation, the effective margin on a standard ¼ percent over Libor, 10-year maturity, new FRN issue offered at a reallowance of 1 percent would be 0.35 percent (1 divided by 10 equals 0.10 added to 0.25 percent margin equals 0.35%).

Secondary Market

However, this effective margin calculation applies only to notes purchased for settlement on the first day of the period for which the coupon is fixed. Secondary market purchases, unless dealt for settlement the next coupon rollover date, require a more complicated calculation to allow for the accrued interest payable and the difference between the current coupon of the FRN and the prevailing rates of interest for the period remaining to rollover date.

Reverting again to the standard FRN above, but assuming for this example that normal settlement date is three months into a six-month period, the calculation would be as follows: Present FRN coupon minus deposit rate for remaining coupon period, multiplied by the number of days to next rollover, divided by 360 would equal the value of rate differential (percent).

The rate differential may be subtracted from the market price of the FRN to give a market price for settlement at the coupon rollover date. The effective margin calculation outlined above may then be utilized.

The volatility of Euromarkets in 1981 and continuing uncertainty over the longer-term direction of interest rates has created a very strong market in FRNs. Attractive margins are difficult to find, but there have been times when the sophisticated investor, using the calculations outlined above, has acquired issues with margins significantly in excess of those seemingly available at first glance.

The table below sets out effective margins for a selection of FRNs. It will be seen that the margins can vary significantly, reflecting a number of factors, in particular an assessment of the credit-worthiness of the borrower and the number of years to final maturity. The calculations have been made with the bank or large institutional investor in mind whose ability to lend or borrow funds at or very close to the London interbank deposit rates is not normally available to the smaller investor. However, investing in FRNs, the latter will receive a rate of interest that far exceeds the rate that he could expect by placing funds in a deposit account, yet still enjoy good market liquidity and limited capital risk, even in volatile markets.

In the early years of the FRN market it was a generally accepted theory that after a period of high interest rates and a strong FRN sector the latter would be very weak when rates began to fall and investors returned to the straight bond market. Experience has shown this not to be true to any great extent. While uncertainty over the level and direction of interest rates remains, the prudent investor will continue to seek good quality FRNs with attractive margins over Libor.

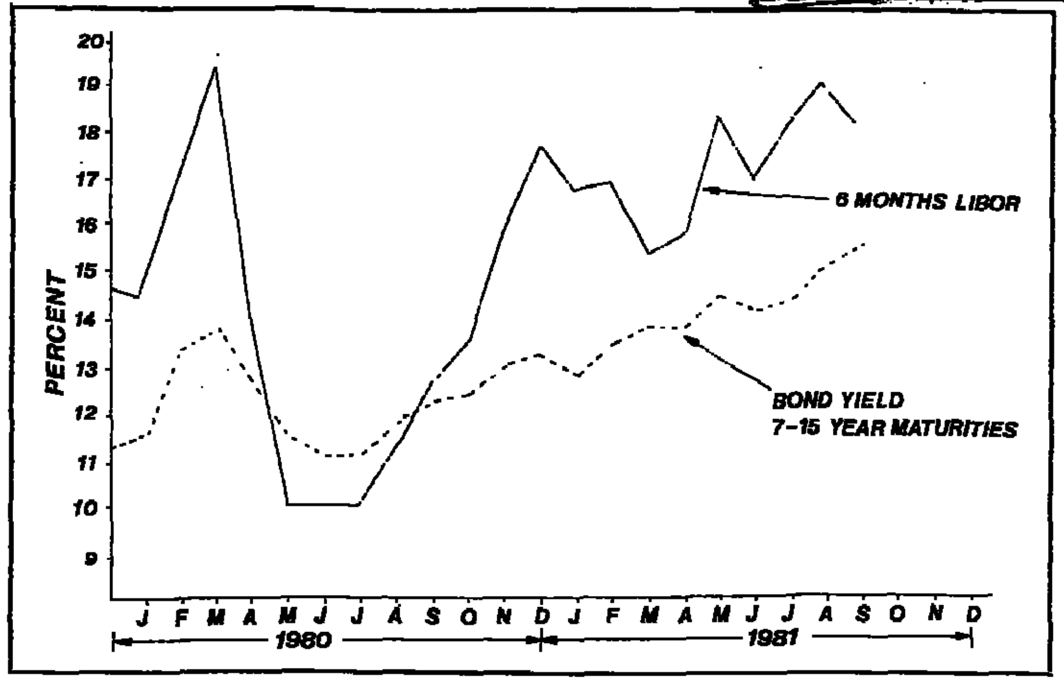
For the investor already benefiting from ownership of FRNs, there is still the possibility of improving yield by switching from one issue to another to take advantage of higher coupons, a better effective margin to maturity, or selling an issue that looks expensive against the rest of the market, perhaps for short-term technical reasons such as a market short.

The investor has the possibility of switching from one issue to another to get higher coupons — or of selling an issue that looks too expensive.

The FRN prices tend to move in a fairly precise manner. Those with coupons lower than the prevailing level of interest rates, at a time when rates are rising, will begin to rise in price in anticipation of the improved fixing as the date of the next coupon rollover draws nearer. However, the price will begin to drop if, after the rollover date, the movement of interest rates continues upward. Conversely, at a time of falling interest rates, FRNs with high coupons, which for the first part of the coupon period will have appreciated in price, will begin to fall in price as the rollover date approaches in anticipation of the much lower coupon fixing.

With the different borrowers in the sector having a wide range of final maturities and differing margins with coupon rollover dates spread throughout the year, there may be many excellent switch opportunities. However, the very nature of FRNs makes switch opportunities difficult to spot. The effective margin calculation is a useful measure of value once the relative quality of the borrowers has been established by the investor.

Gordon S. Anderson is an associate director of Chase Manhattan Ltd.



Issuer	Coupon	Next R/O	Margin	Oct. 15 Price	Effective Margin
BBL Int'l 1986	18-5/16	11-20	1¼	100	0.298
Barclays 1990	17-¼	12-15	¼	100	0.279
Bergen 1991	16-1/16	1-15	¼*	98-⅞	0.359
Girozentrale 1991	17-½	12-23	¼*	99-½	0.333
Gotabanken 1988	19-9/16	11-18	¼	100	0.299
Korea First 1985/89	18-9/16	3-30	¼	99-¼	0.496+
Midland 1989	17-7/16	12-22	¼	100-¼	0.250
Nafinsa 1986	19-¼	1-27	¼	99-⅜	0.560
Nat.Westminster 1990	18-1/16	12-23	¼	100	0.295
Societe Generale	18-⅜	4-1	⅜	101-¼	0.252
Sanwa Int'l 1988	17-¼	3-24	⅛	99-½	0.246

* Over 3 months Libor

+ To 1989. Effective margin to 1985 is 0.683

U.S. Treasury Aide Expects 'Some Weakness' for Dollar

WASHINGTON — "I don't want to be accused of talking down the dollar, because I have great confidence in it," said Beryl Sprinkel, undersecretary of the U.S. Treasury and arch-monetarist. "But, as our interest rates, inflation rate and deficit come down, there may be some temporary weakness.

"On the average, its going to be on the firm side, and that's to everyone's advantage. The dollar has appreciated a great deal recently, and we haven't been happy. We've been getting complaints from our exporters. But the dollar had declined a great deal previously because previous U.S. administrations had been pursuing highly expansionary domestic policies. When we tightened up, the dollar started to climb, obviously.

"It is inevitable the dollar will remain the major currency for a long time; there are no alternatives. The U.S. government has an important responsibility in maintaining monetary discipline to provide a strong underpinning to the international monetary system. Criticisms that we don't take into account the impact of our policies abroad are unfair. And we have not heard increasing criticism, as some claim, about our intervention policy."

In unusual circumstances of great disorder, the U.S. monetary authorities would expect to intervene, Mr. Sprinkel said, but under most circumstances, the exchange rate should be permitted to move.. "It is very difficult to identify on any one day whether a particular movement is fundamental or erratic. We just don't think one achieves stable exchange rates with massive intervention in a world with greatly varying economic performance and inflationary rates."

Treasury Secretary Donald Regan, Mr. Sprinkel's boss, pointed out at a news conference that a review of dollar movements had shown that it had fluctuated between mid-1980 and January, 1981, "when there was massive intervention, and between February and August, 1981, when we did nothing."

"However," he added, "I have told finance ministers to pick up the phone and talk to us if they are worried. We will always be willing to see if we should intervene."

While France's new finance minister, Jacques Delors, said the U.S. monetary policies could mean a dangerous destabilization of developing and industrialized countries, Luxembourg's Premier Pierre Werner said that a reliance on the dollar, its high interest rates and soaring external value had dramatically aggravated real world indebtedness. He urged that the European Monetary System be strengthened. An increased use of the ECU as a reserve asset and means of international private and official transactions would diminish dollar dependence, he said.

A vice president of Chase Manhattan Bank's Treasury Department, Ronald Layard-Leishcing, sees the dollar going into a nosedive after mid-1982. "The U.S. current account is deteriorating, interest rate differentials on Eurodollars and other Eurocurrencies are shrinking, and U.S. manufacturing costs are rising some 10 percent a year," he said.

"Monetary policy is just too tight, and will push us into severe recession, with each 1 percent increase in unemployment adding $15 billion to the deficit. Political pressures building up will force the government to relax its policy, leading to a fall in the dollar," he said.

Until then, he said, factors such as continued capital inflows, large-scale speculation, end-of-year demand by foreign companies for dollars, and a still choppy market for bills and bonds should all help to maintain the exchange rate.

—VANYA WALKER-LEIGH

Canadian Bankers Continue to Be Gloomy

By Vanya Walker-Leigh

TORONTO — "If I had Canadian dollars, I'd want to unload my position," said Charlie Langston, vice president for International Bank of the Canadian Imperial Bank of Commerce.

Though Canada's current account deficit is down from the average Can.$4 billion a year since 1975 to Can.$1.9 billion in 1980, debt service of over Can.$4 billion reserves make the Canadian dollar pretty vulnerable, he said. "I see it more at 80 cents to the U.S. dollar than ever reaching 90, but it wouldn't take much for it to drop to 75 cents," he said.

Mr. Langston's gloomy analysis seems to be shared by a good number of Canadian bankers, critical of successive governments for letting Canada live beyond its means, and particularly concerned at the rapid capital outflow — Can.$6.5 billion in less than a year — resulting from incipient "Canadianization" of the oil industry, reflecting purchases by Canadians of foreign-owned companies or stakes in oil firms.

While the government moved this summer to hoist interest rates nearly three points over U.S. levels to support the Canadian dollar, most analysts seem to see the Canadian dollar under continued pressure over the next two years.

But others, such as the president of the Royal Bank of Canada, Rowland Frazee, would not unload the Canadian dollar, seeing it hold at around 82 to 85 U.S. cents, supported by inflows to finance major projects. However, he warned that present "nationalistic" measures have added to the interest cost of Canadian debt issues in the New York market, caused tensions with trading partners, hesitation among investors, all of which could jeopardize the extent of the contribution of foreign countries to Canada's development.

RBC's economics staff in a recent study estimated that on present trends the current account deficit could reach Can.$70 billion in the year 2000, needing cumulative net capital inflows of Can.$500 billion in the next 20 years, Can.$350 billion of which would be invested in the energy sector (25 percent of expected total energy investment). If Canadian investors in other sectors also use foreign capital, this might exert upward pressure on the Canadian dollar in the later 1980s. But foreign borrowing on the scale envisaged is seen by the study as especially worrisome in view of rapidly expanding debt service costs, and subject to increasingly limited access to the U.S. market as increasing flows of U.S. domestic savings go to U.S. energy projects.

Economists at the Chase Manhattan bank warn that the reasonably stable relationship between the U.S. and Canadian dollars has been largely due to market expectations of similar economic policies in both countries, but divergences between present approaches of the Reagan and Trudeau governments, (the latter favoring greater government regulation, higher public sector deficits and more accommodating monetary policies) could, Chase warns, lead to the "unique" currency relationship re-emerging at a new, and quite different equilibrium level.

Vanya Walker-Leigh is a freelance journalist who has contributed frequently to IHT special supplements.

Third World's Mountainous Foreign Debt Shows No Sign of Peaking

By Richard W. Lombardi

PARIS — Most bankers know that the International Monetary Fund concerns itself not only with balance of payment equilibrium but also with helping its 141 member countries to manage their foreign debt.

This is particularly true in the Third World, where balance of payment disequilibrium has reached momentous proportions. The result of balance of payment disequilibrium has meant an almost intolerable buildup in foreign debt for certain Third World states.

Total disbursed debt of developing countries is projected to reach $524 billion by the end of the year. A decade ago, the figure stood at a more manageable $87 billion.

During this 10-year period, the single most important source of net new borrowing has been the multinational banks. The banks now stand at the center of Third World debt issues.

At the same time, the need for cooperation with the private banks has not always been uppermost in the IMF's own investment strategies. In fact, until quite recently the fund viewed the Third World lending activities of most multinational banks with a critical eye. The reasons are worth remembering.

Given a short deposit base, banks frequently do not enjoy the lending capacity to match the long-term development needs of Third World economies. When funds are available, pricing can be inconsistent with prudent borrowing criteria. Can an economy with per capita income not exceeding $1,000 annually afford to pay market rates on borrowed money? The answer depends on the purpose of the loan.

Moreover, some official creditors have argued that commercial banks are motivated by interests that are incompatible with development needs in the world's poorest countries. Commercial interests are interpreted to be of a strictly short-term nature. The higher the risk, the shorter the term.

To make matters worse, the multinational banks have been accused of extreme mimesis in their lending practices. When a new country came to the international capital markets, one bank would make a decision; the rest would follow. If the decision was positive then the prospective borrower would find himself with a plethora of funds.

Wasteful Consumption

In some instances, commercial bank borrowing has permitted member countries to ignore IMF sanctions on local investment policy and on resource allocation generally. Some Third World borrowers have been able to mortgage future commodity exports against important current borrowing for current consumption. In several instances, current consumption has been wasteful by even the most modest stretch of the imagination.

Borrowed money, then, can serve as a guise to poor economic and political management. This is especially true in those countries where institutional guidelines are not yet in place.

As the IMF rightfully has pointed out, a poorly conceived borrowing program makes the economic adjustment process all the more difficult to accept, let alone sustain. It also condemns future generations to an even more pronounced poverty cycle.

The banks have responded to criticism of their Third World lending activities by noting three important facts.

Healthy Diversity

First, commercial bank lending to developing countries has demonstrated a healthy degree of diversity both by region and by country. The word "self-insurance" comes to mind in any discussion of Third World lending. Self-insurance, in this context, means diversification of risk by country.

Second, the banks can demonstrate that the bulk of their loans by volume has been earmarked for larger, more viable economies where local management can put the money to productive use. The non-oil developing countries with the heaviest concentration of foreign debt include Brazil, South Korea, Yugoslavia, Peru and Taiwan. With the exception of Peru, gross national product growth rate in each of these countries has exceeded 5 percent per annum between 1970 and 1979. This compares favorably with the 87 member countries that the IMF defines as developing.

Third, bad debt experience in sovereign risk lending has been satisfactory both in relative and aggregate terms when compared with the domestic credit experience of most multinational banks. Countries do not disappear; companies do.

All three of these points make for good argument. To some extent, however, they skirt the central issue of Third World lending responsibility. Third World sovereign risk lending inevitably has important sociopolitical overtones. This is all the more true in as much as the aggregate size of commercial bank Eurodollar lending is substantial relative to the size of many Third World economies.

In the last decade, 19 countries have come to the table for debt rescheduling. In official aid terminology, this is known as a debt relief operation. In some instances, the debt relief operation has been complicated by heavy sums of not always useful foreign bank debt.

There is room then for a more theoretical approach to Third World lending on the part of the multinational banks. Without a more lasting approach to the market, the banks could find themselves in the vortex of important loan losses compounded by a hostile regulatory environment both at home and abroad. The banks know this. They are looking for more viable theory on which to premise their lending activity. Meanwhile, the IMF and similar multilateral aid agencies are not short on theory. This probably accounts for the lack of dialogue that has marked from time to time the relationship between the banks and the fund.

Recent economic events, however, have served to bridge the gap between private and public sector lenders. The events relate specifically to wide-scale disequilibrium in trade and investment flows. Indeed, the banks have been instrumental in helping to rationalize these flows. The process is known as recycling. For better or worse, the recycling process has left the commercial banks with a key role to play in Third World development finance. The IMF recognizes this fact. A lending methodology currently is evolving that reflects the changing composition of the numbers and of the players.

Commercial bank lending to Third World countries has increased from slightly less than $10 billion in 1971 to nearly $175 billion by year-end 1981. Exposure, then, has increased by a multiple of 17.5 in the last decade.

Official Aid

During this period, official development assistance from the major Western powers grew from $25 billion to approximately $60 billion. A decade ago, official development assistance was three times more important in aggregate terms than commercial bank lending. Today, the opposite is true.

The IMF is coming to grips with the more diverse debt structures of most Third World countries. IMF stabilization programs typically include recommendations on the structure and amount of allowable external debt. The fund also serves extra-officially as a sort of invisible hand in the process of credit risk analysis. The banks sometimes premise their lending strategies on IMF economic analysis and recommendations, which they obtain from prospective borrowers. This is particularly true where repayment problems already have been identified.

Debtor nations have come to recognize the important role that the IMF fulfills in safeguarding the development process. Safeguarding the development process sometimes means keeping the banks together.

Pressure has been brought to bear on the Fund to play a more senior role in debt rescheduling operations. The poorer countries want the IMF to lay down fixed criteria on rescheduling and to chair subsequent negotiating sessions. For its part, the Fund prefers to guard its place as an honest broker serving impartially both the creditor and the debtor.

In turn, the banks have reciprocated by conditioning most sovereign risk debt reschedulings on the borrower's capacity to live within recommended IMF stabilization guidelines. This assures some protection against economic mismanagement. It also enables the fund to steer bank credit into more productive sectors of the economy.

Economic Order

A deteriorating world economic order has created the conditions for a more fertile dialogue between multilateral creditors, borrowing governments and private sector banks. It can be hoped that this dialogue will result in a more viable lending environment for all parties concerned. In the meantime, the banks might do more on an institutional basis to prepare themselves for a place at the table.

Two theoretic or strategic issues are worthy of immediate attention.

First, the banks cannot move back from the Third World market. They are already overcommitted in certain countries. The question then is one of redefining their portfolios.

Banks might better fend with the development process by tying the bulk of future credits to project-oriented finance or, in the case of short-term loans, to essential trade items. This allows the lender to identify a specific economic, if not financial, payout in the form of export receipts or import substitution.

In most instances, long-term infrastructure or general budgetary finance is best left in the hands of bilateral lenders. Government creditors generally have more leverage in dealing with government borrowers.

Second, banks will need to reunite their analytic and marketing responsibilities within the same business units. In too many instances, banks lodge sovereign risk credit analysis in their economics department and marketing in their lending units. This leads to a diffusion of responsibility. Unnecessary tactical mistakes become inevitable.

Marketing loans in the Third World without a clear understanding of the analytic process represents a disservice to borrower and depositor alike. More accountability, then, needs to be lodged with on-line lending officers.

Richard W. Lombardi is a vice president at The First National Bank of Chicago. He is now on a leave of absence, serving as a research associate at Georgetown University.

EUROMARKETS

Non-Oil Developing Countries: Long-Term External Debt, 1973-80

(in billions of dollars and in percent)	1973	1974	1975	1976	1977	1978	1979	1980
Total outstanding long-term debt	97	121	147	177	217	273	323	370
Of which:								
Public debt to financial institutions[1]	13	22	30	39	54	74	96	113
Major exporters of manufactures[2]	7	10	13	16	21	31	40	46
Net oil exporters[3]	4	8	11	16	21	27	31	36
Low-income countries	1	1	1	2	3	4	5	6
Other net oil importers	2	3	5	6	10	13	20	25
Share of debt to financial institutions in total long-term debt (per cent)								
All non-oil developing countries	13.4	18.2	20.4	22.0	24.9	27.1	29.7	30.5
Major exporters of manufactures	16.7	20.2	22.6	23.2	25.9	28.4	31.3	32.1
Net oil exporters	23.7	37.2	35.5	41.0	41.7	43.3	45.0	46.5
Low-income countries	3.2	4.7	4.8	5.3	6.7	7.6	9.0	10.5
Other net oil importers	10.4	12.1	15.3	16.7	21.4	22.9	27.6	27.8
Memorandum item								
Total debt of non-oil developing countries to banks, BIS series[4]	45	60	75	96	121	149	189	235

Sources: BIS; *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); and Fund staff estimates.
[1] Owed by or guaranteed by public institutions in the borrowing country.
[2] Argentina, Brazil, Greece, Israel, Korea, Portugal, South Africa, and Yugsoslavia. Excludes the offshore banking centers Hong Kong and Singapore, included in this category in the *World Economic Outlook*.
[3] Bolivia, the Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, the Syrian Arab Republic, Trinidad and Tobaco, and Tunisia. Excludes the offshore banking center Bahrain.
[4] Includes claims on the private and public sectors and short-term claims.

Table: International Monetary Fund

Crystal Ball Needed In Futures Market

By Keith M. Woodbridge

LONDON — To get a view of how the financial futures markets work, let us put ourselves at the table of a board of a British company importing raw materials (oil, tobacco, rubber, for example). The directors met at the beginning of January to review their anticipated activities for 1981. They knew that in 1980 they imported $100 million worth of raw material and anticipated that they would do the same in 1981.

The board discusses the spot exchange rate, obviously listening to the contribution of the financial director. The government was at that time under pressure to reduce the exchange rate to assist exporters, and it was anticipated that interest rates would be lowered 1, 2 or 3 percent on the budget.

With interest and exchange rates swinging so violently these days, financial futures and hedging are not the only answer — but they make a good starting point.

The board decides that there is a greater danger of the rate falling than rising and decides to purchase 100 percent (or less) of its anticipated currency needs for the year. They sell sterling contracts on the International Monetary Market (IMM) in Chicago for, say, September at 2.43 ¾ as a hedge and to lock in that rate.

January Objective

In time orders are placed, imports arrive and payment instructions are received. These will be spread over the year (in which case, with experience, the company will spread its futures contracts also over the year), but concentrating only on the September payments the company, in that month, buys its dollars for delivery spot from its bankers at 1.7905 and reverses out contracts to the equivalent value on the IMM. (The price of the futures contract will now mirror the spot rate). The dollars will have cost more to purchase (1.7905 vs. 2.4375), but the futures contracts will have yielded a counter profit in cash (the net of all the daily contract revaluations).

The objective in January, which was achieved, was to lock in the cost of the company's currency raw material, in 1981, to keep the company's advantage. Such actions, of course, also assist governments as there is an obviously favorable effect on the rate of inflation.

There is potential for such currency hedging involving both the exporter and the importer.

At the moment, for example, the spot rate is 1.87 and it may be that the bottom has been reached. The exporter may wish to price keenly in dollars, but not yet knowing the amounts or dates on which funds will come to him, may wish to lock in a rate for an IMM future date. If today he chose March, 1982, that contract is priced at 1.8710 and he would buy the sterling contract/sell dollars.

Using the interest rate futures contracts to hedge future dollar cash flows is an even greater unexplored strategy.

Of the need to do so there is no doubt. Eurodollar borrowers on rollovers terms have been charged rollercoaster rates of 20 percent, 10 percent, 22 percent and currently 15.5 percent since January, 1980.

Banks, in charging these rates, have consciously or otherwise accepted the fact that their credit risks have worsened dramatically since the loan was first granted two or three years ago.

Hedge for Customer

Working perhaps together (the banks placing the hedge in a fiduciary capacity on the IMM in the name of their customer), it is possible for the customer to have a hedge against these swings.

The IMM has two interest rate futures contracts, Treasury bills and CDs each for $100,000 and each for three months. Permission is awaited for the introduction of a Eurodollar contract.

With all three contracts we are and will be trading in the same manner, i.e. for the same series, of stated future months on which maturities the instrument will be delivered and from which dates they will start to run. We are, therefore, trading forward/forward interest periods.

The relationships of the price movement for Treasury bills and CDs for the same period are graphed and plotted against Eurodollar London interbank offered rate (Libor) by IMM members for their customers. As movements in the rates of these futures contracts do not map Libor exactly, your member will advise on how many extra Treasury bill or CD futures contracts one needs to take out to forge a hedge for $100,000 of Euros forward/forward.

The hedger may be a Eurodollar borrower wishing to lock in a forward orward price for his next rollover fearing a rise in interest rate or alternatively, a portfolio manager wishing to lock in the same price for the same period believing rates will fall.

The method is the same for both, except that one sells the future contract and the other buys.

As it is the principle that is important and as the Eurodollar contract could soon be with us, it is simpler to take poetic licence and assume it has arrived.

Assume then that on June 12, 1981, a company wished to protect itself from a perceived rising rate environment and decided to lock in a price for its next Eurodollar rollover September to December.

Libor on that day stood at 17-13/16 percent and our assumed Eurodollar contract for September delivery (three months, $100,000 each) would have stood at 16.06 percent. (We trade interest contracts on an index basis created by deducting the interest from 100 to give 83.94).

The company sold contracts (multiples of $100,000) at 83.94 index (16.06 percent).

The Sept. 14 interbank spot was Sept. 16 (the maturity also of the IMM contract) and Libor and the contract stood at 18 percent (82.00 index).

The company reversed out (bought its contract on the IMM) at 82.00 (18 percent) and rolled over its loan with the bank, likewise at 18 percent.

The net effect is that while the company has paid 18 percent on its rollover it has the contract profit in cash to place against it. The all-in cost was 16.06 percent.

Second Currency

Finally, our market does not stop there. If it is possible to lock in a rate for Eurodollars forward/forward, it is equally possible to convert that to a second currency given that there is a forward foreign exchange market (or a futures currency contract on the IMM) available.

In the above example the dollar hedge could have been converted to a sterling (or DM, Swiss franc, Yen, Can.$, and so on) hedge by simultaneously in June selling dollars for Sept. 16 at 1.9905 and buying dollars for Dec. 16 at 1.9905. This 100 basis point differential equates to 2 percent.

In conjunction with the Eurodollar hedge this would have given a Eurodollar hedge September to December at 14.06 percent. (On Sept. 16 Eurosterling for three months was 14.81 percent).

Finally if such rates can be created in currencies other than dollars, they can, given the freedom of regulations in the country in question, be used to hedge or arbitrage the relative domestic interest market.

Europe is desparately in need of entrepreneurs willing to plan and invest for the future, to build new companies, to employ, to produce and to export.

With interest and exchange rates swinging so violently, however, any long-term entrepreneurial thoughts must be stifled before they are ever given form. Financial futures and hedging are not the only answer — but they make a very good starting point.

Keith M. Woodbridge is the managing director of the International Monetary Market's London office.

When IMF Equals MCP

WASHINGTON — When at last bankers at the International Monetary Fund conference meet their spouses (nearly all wives) to go off to staid working dinners (mainly in private hotel dining rooms), one may wonder what the presumably desegregated seating arrangements generate by way of conversation.

The daytime "accompanying spouses" program, organized by an all-female committee of spouses of the virtually all-male upper management of a bank, assumes bankers' other halves to be far too frivolous and silly to want to hear anything about the world economy, let alone meet prominent American women, except Nancy Reagan.

Modern America is dispatched with a dress show at the country club, a shopping trip downtown, a handshake and little speech from Mrs. Reagan — the latter as part of the program's cultural bit — a visit to the White House and a tour of Charlottesville.

The only "intellectual" event, a two-hour seminar on "new patterns of female employment," was a "whitewash and disaster, like the rest of the program," said an Australian university teacher and wife of a banker. "Half the wives may be dumb, but the other half are just being insulted."

But then some bankers (or is it their wives?) obviously do not like women who can talk shop with them.

Pausing as he extended invitations for a press dinner party to a group of reporters, a banker from Hong Kong turned to the one female reporter in the group and said condescendingly: "I can't invite you, dear, my wife doesn't approve of my picking up girls at parties."

Seeing a look of horror from the male reporters around him, he muttered: "What have I said wrong?"

— VANYA WALKER-LEIGH

A Period of Weakness Soon Is Predicted for Sterling

WASHINGTON — "The pound will be fairly stable against the dollar in the next few months, but will tend to weaken after that," said Robin Leigh-Pemberton, chairman of the National Westminster Bank.

"I also expect sterling to weaken against the harder European currencies in the medium term. Britain should become an active member of the European Monetary System on political grounds, including the cohesion of the EEC, as much as for purely economic reasons," he said.

Sterling's role can no longer return to what it used to be in the heyday of the Sterling Area, Mr. Leigh-Pemberton pointed out, because trade and payments patterns differ radically from those on which the area was based. Other currencies, or currency baskets, had become more attractive as international reserve assets.

Mr. Leigh-Pemberton said he supported the British government's monetary policy, aiming at reducing inflation and restoring British price competitiveness.

"But targets for money supply and public sector borrowing may be over-tight for conditions of world recession. However, present policies have been less rigid than the targets might suggest. The new monetary control techniques, emphasizing control of short-term interest rates [introduced on Aug. 20] appear to be working satisfactorily. The main weakness of the government's medium-term financial strategy is the choice of sterling M-3. This hasn't been a good indicator of monetary stringency — nor has it been relied upon exclusively for policy purposes. Future emphasis will probably be placed on other measures of money, or other indicators, though general direction of monetary policy will not change."

Excluded, like other foreign banks in France, from the recent nationalization measures bringing virtually all private French banks under state control, he sees a bright future there for NatWest.

"The effects on British banking relations with France of bank nationalization cannot easily be distinguished from those expected to arise from the general direction of economic and social policies. But generally speaking, overseas banks in France might be expected to gain, or regain, non-resident business from French banks — for example, British businesses might be more inclined to use British banks like ours, represented in France...."

— VANYA WALKER-LEIGH

Tokyo Bank Chief Is Expecting a Strong, if Erratic, Yen

WASHINGTON — "The yen will stay strong, despite erratic fluctuations," said Yusuke Kashiwagi, president of the Bank of Tokyo.

"The fluctuations would result from an uncertain outlook for capital movements, under the influence of liquid financial conditions, and persistently high interest rates in the United States. Another factor would certainly be uncertainties in the international political situation.

"But, overall, the yen is unlikely to weaken over the next twelve months. It will reflect Japan's favorable economic situation — low inflation, relatively high growth, the underlying strength of Japan's current-account position, against the background of an easing in the world's oil supply-demand situation and stability of prices of primary products.

An Increasing Role

"Japan's many strengths will continue to attract petrodollars, though such investments will be affected by the anticipated reduction in OPEC surpluses. Japan will continue to balance inflows by encouraging capital exports, further promoting internationalization of the Tokyo money and capital markets. Private banks in Japan, as elsewhere, have an important role to play in recycling petrodollars to non-oil developing countries. The Bank of Tokyo is particularly interested in co-financing development projects with the World Bank."

Mr. Kashiwagi said he saw an increasing role for the yen as a trading currency. "Yen-denominated trade transactions between third parties, virtually nonexistent now, will expand as Japan's economic importance grows. It is very possible that the yen will be used within the ASEAN area in this way, as Japan's economic relations with the group continue to expand," he said.

Mr. Kashiwagi said that in Japan, facilities for bankers' acceptances like those existing in the United States had not developed, so it was important to create a financial market for yen-denominated trade bills.

— VANYA WALKER-LEIGH

At the Extremes of the Dismal Science

By William Ellington

LONDON — The Reagan administration's monetarist and supply-side economists tell us that the U.S. economy will expand while inflation subsides. Some of Wall Street's prominent capital market economists tell us that a credit crunch and business collapse are in store.

Who is right? Probably neither side, as a recession seems to be developing with the result that interest rates have declined far below their peaks. Yet it is worth examining how practitioners of the same dismal science can arrive at extremes of optimism and pessimism. Pessimistic economists such as Henry Kaufman of Salomon Brothers and Albert Wojnilower of First Boston Corp. have persuasive arguments even though their predictions are not looking good at the moment.

Almost all economists work with accounting identities. They rely on the notion that, if the amount on the left side of the balance sheet rises, the amount on the right side must rise by the same amount. Otherwise, someone has not reported complete and accurate figures to the collector of statistics.

Monetarists use gross national product (GNP), that is, the amount of things we produce in a year multiplied by what things costs, as the left side of the balance sheet. On the right is the amount of money available for expenditure multiplied by the number of transactions required to buy what is produced.

Money Velocity

Monetarists conveniently argue that transaction volume, known as the velocity of money, changes gradually over time so that it can be used as a constant in working out what will happen to output and prices if the money supply expands at a certain rate. The purpose of squeezing the money supply is to bring inflation down and restore business confidence. However, using generally accepted accounting principles, we have to allow for the possibility that output rather than inflation will decline on the left side of the ledger as the money supply growth is reduced on the right. This is broadly what happened in Britain under Prime Minister Margaret Thatcher's flirtation with monetarism, though it could be argued that the Bank of England's management of the money supply represents a light embrace rather than a squeeze.

Moreover, output rather than inflation appears to be declining in the United States at the moment. If this continues, public support for monetarism is likely to disappear.

A few months before Beryl Sprinkel left his post as chief economist of Harris Trust and Savings Bank in Chicago to become undersecretary of the U.S. Treasury, he was asked whether a growing U.S. budget deficit would force interest rates sharply higher if the Federal Reserve did not create the money to finance it. His answer was that budget deficits are not very important. He said that, as long as the private sector purchases the government's debt and the public sector spends the proceeds, the funds are effectively recycled back to the private sector. Accordingly, he did not foresee interest rates moving much higher. At the time, the prime lending rate of U.S. banks was around 14 percent. It subsequently rose as high as 21.5 percent.

Budget deficits, of course, are something that Keynesian economists pay attention to as they are oriented toward fiscal rather than monetary policy. The important accounting identity for Keynesians is that consumption plus savings on the left side of the balance sheet equals output plus investment in inventories and plant and equipment on the right side. If savings rise too rapidly and are matched on the other side of the ledger by unwanted inventory accumulation, then the economy weakens. During such a period, it is the job of the government to spend enough to ensure that consumption holds up. Therefore, the size of the budget deficit is an important regulator in the economy. All this falls under the heading of what is elliptically called demand management.

Output, Investment

Supply-side economists have emerged as part of the paraphernalia of the Reagan administration. As the name suggests, they pay attention to the output and investment side of the balance sheet. Nonetheless, they use the same accounting principles as the Keynesians.

One supply-side argument is that if taxes are reduced people will work harder and produce more. Inflation falls under the heading of a tax on savings. It is assumed that savings will rise and businessmen will invest more if inflation is brought down. For instance, John Rutledge, an economist who acts as a consultant to both the Treasury and Office of Budget and Management, asserts that inflation represents two-thirds of the taxes levied on American citizens.

Another supply-side argument is that output will rise if excessive government regulations are removed. Supply-siders also believe that attitudes and expectations are important. If businessmen have a positive attitude they will produce and invest more. Consequently, the Reagan administration's supply-siders dislike critics and cynics who undermine the confidence of American businessmen.

Supply-siders, of course, are unhappy with the views of Mr. Kaufman of Salomon Brothers and Mr. Wojnilower of First Boston. These two "ecopessimists" have been singled out as offering criticism but no solutions.

Mutual Antipathy

The antipathy may be mutual. Mr. Wojnilower recently said: "How can a country, other than one that begins from deep unemployment, possibly find that added wherewithal for a simultaneous major military buildup, acceleration of private capital investment and stimulation of consumption through tax cuts? And to manage all this while insisting on a 'no-economic-growth' monetary policy transcends even the powers of magic."

Mr. Wojnilower is probably typical of many Wall Street economists in that he pays attention to sources and uses of funds. This is another type of accounting identity. The basic idea is that, if one sector of the economy borrows, another sector of the economy must hold the debt. For instance, if the government and corporate parts of the economy are net borrowers, then the public must provide the funds.

The books always balance in that one person's liability is another person's asset. However, on a national basis, things can get out of hand. If too many sectors of the economy have large demands for credit, it becomes difficult, if not impossible, to satisfy all sectors. Thus, for an economist like Mr. Wojnilower, the accounts for the various sectors of the economy should be brought into balance, not just those of the federal government.

"It is not the federal budget as such that needs to be balanced, but a much broader concept of national budget in which the federal budget is not only a constituent, but also a balance wheel, counterpart as well as part," he said recently.

This is a rather radical idea for a Wall Street economist in that it implies a distrust for the way markets allocate credit.

Asked whether he advocated capital controls or a system of credit allocation that differs from a pure market system, Mr. Wojnilower said "no" but added that such a development would not be the worse thing that could happen.

William Ellington is a London-based journalist who specializes in financial and economic topics.

Comecon Current Account Balance*

(in billions of dollars)

	1979	1980[1]	1981[2]
Bulgaria	+ 0.	—	- 0.1
Czechoslovakia	- 0.5	- 0.5	- 0.7
East Germany	- 1.8	- 1.8	- 2.0
Hungary	- 1.5	- 0.5	- 0.5
Poland	- 2.8	- 3.0	- 3.6
Romania	- 1.7	- 2.8	- 3.1
Soviet Union	+ 1.2	+ 1.5	+ 0.5
TOTAL	- 7.0	- 7.1	- 9.5
Yugoslavia	- 3.7	- 2.3	- 1.6

(Article, other tables on first page of section)

1) Preliminary; 2) Projected

* Merchandise balance less net invisibles and net payments.

Recovery Uncertain At Germany's Banks

Special to the IHT

FRANKFURT — This has been a year of difficult and cautious recovery for West German banks from two of the worst consecutive years in recent memory, and it appears the final outcome will be uncertain down to the wire at year's end.

For about a week after Oct. 9, when Deutsche Bundesbank cut its special Lombard lending rate to 11 percent from 12 percent, it looked like the tight money corner had been turned and the banking system granted its long-awaited relief from rising or steadily high interest rates. Bank shares prospered on the Frankfurt stock exchange, and Westdeutsche Landesbank Girozentrale (WestLB) advised clients in its regular stock market guide to buy banks, at long last.

However, by midmonth, the rumors began, and on Oct. 19, the Bonn government officially conceded that it may have to borrow as much as an additional 7 billion marks on top of its planned 26.5 billion-mark net borrowing requirement for 1982. That would leave federal borrowing in 1982 little changed from the high level of 1981.

The news disappointed and angered bond dealers. One senior trader at a large bank, who did not want to be named, accused the government of destroying the trust of West German investors in the nation's capital markets. For banks, the news raised the specter of a repeat performance of 1980's large write-offs on securities holdings that cut deeply into earnings.

Aside from the twists and turns presented by the opening days of the fourth quarter, West Germany's major commercial banks have shown steady, if modest, progress in adjusting to the interest rate shock of the past two years. Dresdner Bank, which cut its dividend by a third in 1980 to 6 marks per share, and Commerzbank, which dropped last year's dividend entirely after paying 8.50 marks per share in 1979, showed appreciable growth in operating earnings at midyear.

Volatile Environment

Dresdner Bank's chief executive, Hans Friderichs, recently told reporters in Berlin that the positive trend had continued through the first eight months, with the bank continuing to restrain growth of long-term lending because of the risks it presents in volatile interest-rate environment.

Bank analysts say that the key mistake made by Dresdner and Commerzbank, among the *Grossbanken*, was underestimating the duration of the Bundesbank's tight credit policy, started in early 1979, while continuing to expand business volume by extending long-term, fixed-interest loans in the hope these would soon turn profitable. Deutsche Bank, West Germany's largest bank, considers itself the happy exception to its competitors, having pursued a conservative lending policy that assured loans of all maturities were profitably refinanced by suitable liabilities, mainly low-interest customer deposits.

Southern Star

The other two major banks have admitted in so many words that their strategy in 1981 has been to follow Deutsche Bank's example. "We are stressing profitability above growth," Dresdner Bank told its shareholders at midyear, while Commerzbank said it had "continued its cautious business policy by further curtailing the parent bank's business volume."

The regional and public-sector banks have also had a mixed year to date, with Bayerische Vereinsbank standing out as a southern star in West Germany's banking landscape. In step with the Deutsche Bank, it increased 1980 earnings 8.5 percent against the stream, and its first-half interest earnings were up 12.5 percent from half the 1980 total, the standard basis for comparison.

With assets of more than 54 billion marks, Bayerische Vereinsbank officials joke that they would be surely ranked as the fourth *Grossbank* if they had a skyscraper headquarters in Frankfurt instead of carefully restored buildings in central Munich that once belonged to the kingdom of Bavaria.

Meanwhile, several hundred kilometers to the northwest, WestLB is in the worry limelight. The bank, partially owned by the State of North Rhine-Westphalia, is asking the state for a 700-million-mark-plus capital injection at a time when most banks do not even dream of a capital increase. Like many other banks, WestLB took a sharp drop in profits in 1980, and like Commerzbank, it was forced to drop its dividend. But unlike the *Grossbanken*, WestLB's miseries continued into 1981 with a 66.9-percent plunge in first-half operating earnings.

At least some of WestLB's problems appear to be related to its relatively high lending to public authorities. Such credits offer top-notch security, but seldom the best margins of interest, bank analysts point out. WestLB's other mistakes, they said, were the same as those committed by other banks, but they seem to have hit WestLB especially hard.

The growing role of government as a borrower increasingly worries West German bankers, who maintain that high budget deficits combined with high interest rates are pushing private business borrowers off the market and choking off vitally necessary investment financing for the private sector.

Commerzbank, in its fall edition of "Business Notes," published by the bank's economics department, said the total state, local and federal government debt had grown to nearly 500 billion marks by mid-1981, or "two thirds of all indebtedness of public and private enterprise, the classic borrower of funds from outside sources."

"Industry," Commerzbank wrote, "is now finding its forward strategy braked by the high capital needs of the high interest paying public authorities."

Dangerous Trend

The chief economist of a large Frankfurt bank said the Bonn government's admission that it had underestimated its 1982 borrowing requirement is further evidence of the dangerous trend pointed out by Commerzbank. With German business less and less able to finance investments from its own resources as sales stagnate and profits shrink in the current economic downswing, the economist said that bankers are starting to worry that even if 1981 ends well in terms of securities write-offs, 1982 may see increasing numbers of business loans go sour.

"We have seen the write-offs on securities eating away earnings in the past two years," the economist said. "Next year may bring higher write-offs of credits, which so far haven't been significant." He added that it was hard to tell how much loan write-offs would increase, because many businesses will not be fully aware of their plight until the books are closed on 1981.

Meanwhile, the Federal Statistics Office reported that insolvencies increased 24 percent in West Germany in the first eight months of 1981, and analysts expect the increase for the year as a whole to be of this magnitude, with little relief in 1982.

Overshadowed

The international business of West German banks, dampened during the first quarter of 1981 by a "gentleman's agreement" with the Bundesbank freezing loans to foreign borrowers to prevent capital outflows, has been overshadowed in the rest of the year by concern over the banking system's exposure in Poland, estimated at about $4-billion of the $25-billion total debt to the West. However, a banker close to the international group of banks managing the rescheduling of Poland's debts maintains that the banks do not expect any catastrophic developments.

"We are very careful with new, guaranteed lending, and insisted strongly that Poland continue paying interest to Western banks, so that under our accounting rules, the loans can't be fully written off," he said.

Nor Worried

Mr. Friderichs recently declared that Poland had met all its interest payments on 400 million marks of credits outstanding from the bank, adding that he was not worried about the loans. Dresdner Bank is acting as international agent in the rescheduling.

The banker close to the Polish rescheduling also said there was evidence that Poland's Communist allies were aiding the crisis-ridden nation in meeting interest payments by direct or indirect means, a sign that the so-called "umbrella effect" of mutual assistance among the Soviet Union and its East European allies was working.

EUROMARKETS

Peseta Loan Syndications

Special to the IHT

MADRID — International banks are finding that Spanish borrowers aren't as eager as they once were to obtain medium-term Eurodollar loans.

One reason for this is that Spanish companies have discovered the delights and beauty of syndicated peseta loans. Until the beginning of this year, this type of loan was virtually unknown in Spain.

Like a Eurodollar loan, syndicated peseta loans extend over a period a years but the interest rate is usually fixed quarterly or semi-annually at a fixed increment over interbank offered rates. Instead of the London interbank offered rate (Libor), interest rate fixing for syndicated peseta loans are based on the Madrid interbank offered rate (Mibor).

The first major loan syndication in pesetas was a 7-billion-peseta (about $83 million), six-year loan to Sevillana de Electricidad S.A., a utility. Organized last May by the Madrid Branch of Chase Manhattan Bank, the loan was syndicated entirely among banks in Spain including branches of foreign banks.

Interest on the loan varies at one point over the one-, three- or six-month Mibor rate for the first three years and 1.25 points above for the remaining three years.

Since the Sevillana loan, the volume of Mibor-based loans has expanded to the equivalent of about $2.6 billion, a Spanish banker reckons.

Market Expansion

One of the reasons for the huge expansion of the market is that Spanish borrowers prefer to avoid the exchange-rate risk of borrowing in dollars. Perhaps more importantly, Mibor rates have been below dollar Libor rates for much of the year so that peseta loans had lower interest costs.

The development of the syndicated peseta loan market has occured at a time when Spanish banks have seen traditional loan demand fall off because of the business recession in Spain. Therefore, Spanish banks have had spare lending capacity.

Foreign banks in Spain have been eager to find a niche. As syndicated peseta loans are funded in the interbank market and don't require a client-deposit base, foreign banks have been very eager to participate in these loans.

Not surprisingly, the competition has led to a narrowing of spreads over Mibor. A recent 1.5-billion peseta loan to Transmediterranea, the shipping and ferry company, carried a margin of 0.69 points over Mibor for the first year and 0.75 for the remaining seven years of the loan. The loan was revolving, meaning that the borrower can continually draw and repay funds over the life of the loan. Midland Bank's Madrid branch managed the transaction.

INTERNATIONAL Herald Tribune
Published with The New York Times and The Washington Post
Page 17 Tuesday, November 24, 1981 **

Dresdner Bank Struggles to Deal With Growth

By John Tagliabue
New York Times Service

FRANKFURT — Behind the aging squat sandstone building housing Dresdner Bank's executive offices stands a new 32-story glass-and-aluminum office building, neatly reflecting the bank's recent explosive growth.

Dresdner, West Germany's second-largest bank after Deutsche Bank, christened the building last year with a big public relations campaign aimed at local critics who said the expansion marred Frankfurt's traditional architectural unity.

Though the bank rejects the aesthetic criticism, its executives would probably agree these days that financially, at least, growth can have its drawbacks.

Last year Dresdner cut its dividend for the first time since World War II, as earnings contracted under the impact of high lending rates, a sluggish economy, mounting risks in countries such as Poland and the cost of bailing out ailing industrial customers such as AEG-Telefunken.

"It's hard to name any one problem," said Hans Friderichs, the bank's chairman. "These things just tend to add up." Though its troubles have pushed it into the spotlight, they are hardly unusual for West Germany's banking industry.

For example, the nation's third-largest bank, Commerzbank, recently announced that it would omit the payment of a dividend this year for the second consecutive year.

In the last five years, Dresdner's assets ballooned by 40 percent, to 150 billion Deutsche marks, as the bank expanded domestic business and followed West Germany's export-oriented companies to markets such as Canada, Eastern Europe and the Far East.

Mr. Friderichs acknowledged, however, that the bank's major problem last year was domestic. The bank aggressively expanded its credit business in recent years by offering medium-term loans, to be refinanced on what was then a cheap money market. But when interest rates increased, Dresdner — and many other West German banks — was forced to write off losses on large blocks of fixed-interest securities, cutting sharply into earnings.

Thus, despite its growth, the bank announced to shareholders last year that net earnings dropped 26 percent, to 204 million DM. Payment of a truncated dividend, bank analysts said, was made possible only by selling two large blocks of industrial holdings.

"Last year's results really shook them awake," one industry official said. "But putting their house in order will be a long and arduous job."

The bank reported earnings in the first six months of this year of 214 million DM, up 26.5 percent from the same period last year. But analysts said that this excludes sizeable provisions for things such as pensions, leaving the question open on whether Dresdner will be able to pay a dividend this year.

Industrial Burden

If the bank's industrial holdings have bailed it out on occasion, at other times they have dragged it down. Dresdner is a major shareholder in Telefunken, which has become something of a West German Chrysler Corp.

Two years ago, Telefunken's banks agreed

(Continued on Page 19, Col. 1)

Hans Friderichs
..."We'll continue expanding"

Mobil Reports Tenders Received For 38% of Marathon's Shares

From Agency Dispatches

NEW YORK — Mobil Corp. disclosed Monday that it had attracted 23 million Marathon shares — or just over 38 percent of Marathon stock — as of midnight Saturday under its $5.1-billion takeover offer for the 16th largest U.S. oil company.

Mobil, the second largest U.S. oil company, is seeking a minimum of 30 million Marathon shares and has promised to pay $85 a share in cash for up to 40 million shares — or two-thirds of Marathon's outstanding stock. Mobil intends to acquire the remaining shares through an exchange of securities.

Marathon stockholders who sent in their shares under Mobil's offer have until Dec. 4 to withdraw their shares. And unless Mobil raises its offer, analysts say, there is a high probability that many will withdraw their shares following U.S. Steel's bid of $125-a-share for 51 percent of Marathon stock. The agreement between U.S. Steel and Marathon included arrangements for an ultimate merger of the two companies in a package totalling $6.3 billion.

The shares tendered under U.S. Steel's offer can be withdrawn up to midnight Dec. 10. The offer is scheduled to expire Dec. 17. If more than 30 million Marathon shares are tendered before midnight Saturday, the steel maker said it will buy them on a prorated basis.

Court Challenge

Meanwhile, in Cleveland, Marathon and Mobil summed up their cases in closing arguments in a federal court hearing on Marathon's request to permanently block further purchase of its stock by Mobil.

Marathon claimed that a takeover by Mobil would effectively diminish competition in the industry and violate antitrust laws.

Mobil replied that Marathon's conclusion would lead the judge and others to "the never-never land of speculation as to who would do what to whom and how."

In Washington, Marathon repeated its antitrust argument before a congressional joint commerce panel. Company vice president Charles Barre said the U.S. Steel offer to acquire Marathon was welcome because it avoided antitrust problems, would keep the company intact, and entailed a higher price per share.

But Ohio Attorney General William Brown, who already is suing to block the Mobil's bid for Marathon, told the panel that he is considering possible legal action against U.S. Steel's bid.

There is no obvious anticompetitive effect of the steel company buying the Ohio oil company, he said. But he told reporters later that the study of possible legal action is just starting.

Although U.S. Steel is considered a "white knight" by some for attempting to save Marathon from the unfriendly takeover by the Mobil. Mr. Brown questioned the steel firm's motives.

"While we're laying off people in Youngstown [steel mills], there's $6 billion being spent trying to buy an oil company," he said. "That doesn't make sense to me ... That [money] builds a lot of steel plants."

Mr. Brown complained that U.S. Steel recently won legislation allowing it to save money on pollution controls so it could invest in new machinery to compete better with Japan, only to use its capital now to buy an oil company.

BUSINESS NEWS BRIEFS

Beatrice, Chinese Agree to Joint Venture

Reuters

CHICAGO — Beatrice Foods said Monday it signed a joint venture contract with the Chinese to develop food businesses in China for export and domestic consumption.

Beatrice will hold 50 percent of the venture's equity, the rest being split by the city of Guangzhou and the China International Trust and Investment Co.

To be known as the Guangmei Foods, the venture will develop export and domestic Chinese markets for canned fruit and vegetables, soft drinks and citrus juices. Beatrice said it expects final government reviews of the venture by early next year and initial production early in 1983.

Philips Confirms Talks With Sanyo

Reuters

EINDHOVEN, Netherlands — A Philips spokesman Monday confirmed that Philips is negotiating with Sanyo Electric of Japan over the sale of the Dutch company's color television plant in Lowestoft, Suffolk, in England.

Philips is cutting production at Lowestoft and concentrating output at its Croydon plant, south of London. The spokesman was unable to give further details.

Tokyo industrial sources said Monday that Sanyo will start production at Lowestoft in August, 1982, with production planned at 60,000 sets a year. Last year, Sanyo closed its color-TV plant in Italy.

BASF Sees Maintained Profit Level for 1981

Reuters

LUDWIGSHAFEN, West Germany — BASF expects its profits this year to be about the same as in 1980 despite a 16-to-17-percent increase in turnover, Matthias Seefelder, management board chairman, told a press conference Monday.

The company reported nine-month results showing a 3.6-percent decrease in pretax income on 16.9 percent higher turnover. Mr. Seefelder said turnover has risen because of higher prices and currency gains, while volume sales growth this year has been only 3 to 4 percent, rather than the expected 5 percent.

Mr. Seefelder also said the company plans to close permanently a further 10 percent of its annual capacity in standard plastics by the end of this year in response to mounting losses in this sector.

Nabisco Buys Interest in Mexican Firm

Reuters

NEW YORK — Nabisco Brands said Monday it had acquired a minority interest in Gamesa, a Mexican food company, for $45 million.

It said the acquisition gives the company "a substantial presence in a country whose rapid growth represents an outstanding potential for gains in sales and earnings."

Witco, Richardson Agree on Takeover Terms

Reuters

NEW YORK — Witco Chemical said Monday it had signed a definitive agreement under which it will acquire Richardson Co., the subject of a bid by MacAndrews & Forbes Group.

It said the boards of both companies approved a $27.50-a-share tender offer for Richardson. The MacAndrews & Forbes offer is for $24 a share.

Witco said Richardson's board is recommending that shareholders accept the Witco offer. The offer is conditioned upon its acceptance by more than 51 percent of Witco shareholders. The offer will begin Tuesday and expire on Dec. 22.

California, Italian Banks Set Merger

Reuters

LOS ANGELES — First Los Angeles Bank said Monday it signed a definitive agreement for the acquisition of 85 percent of its shares by Instituto Bancario San Paolo, of Turin, Italy, for between $36.50 and $38.50 a share.

The banks had previously announced a plan for the merger, which is subject to approval by First Los Angeles Bank shareholders and by U.S. and Italian regulatory authorities.

Hong Kong's Pao to Merge 2 Holdings In Move to Fund Real Estate Projects

Reuters

HONG KONG — Hong Kong financier Sir Y.K. Pao announced Monday plans to merge two parts of his business empire in a move designed to generate cash for investment in real estate projects.

World International (Holdings) Ltd., with one of the largest shipping fleets in the world, will become a wholly owned subsidiary of Hong Kong & Kowloon Wharf & Godown Co., a property concern.

Though the merger, scheduled to be effective by the end of February, had been widely expected, analysts were surprised that World was merged into Wharf.

Market analysts said the deal will allow World to reinvest its cash flow from shipping into property development in Hong Kong rather than back into shipping. Although Sir Y.K. Pao has had a policy of long-term chartering, which means it has not been exposed to the spot market, the company has tonnage coming off charter in a very difficult market, they noted.

Major Development

The two companies said the merger will enable Wharf shareholders to acquire a direct interest in World's fleet.

Sir Y.K. Pao, chairman of both companies, said the merger will allow World and Wharf to take advantage of investment opportunities that neither company could take up individually and will facilitate the implementation of Wharf's substantial property and public transport development program.

He told a news conference that phase four of Wharf's Harbour City development of nine acres in Kowloon will cost 3 billion to 5 billion Hong Kong dollars ($529 million to $882 million), and other developments will need a further 1.5 billion dollars.

The analysts said World has a stronger cash flow than Wharf but added that next year Wharf's income will be boosted by the occupancy of phases one and three of its Harbour City development.

Former Jardine Holdings

Wharf has a very strong balance sheet and has been liquidating some of its low-yielding assets, the analysts said. However, the company's return on assets has not been satisfactory in recent years, they said.

Wharf traditionally did not emphasize property development. But since Sir Y.K. Pao took control of the company from Jardine, Matheson & Co. in 1980, Wharf has been moving more into this sector, particularly in the form of joint ventures.

At the same time as he took over Wharf, Sir Y.K. Pao forced David Newbigging, chairman of Jardine, to step down as Wharf chairman.

Sir Y.K. Pao his wife and companies they control hold about 45 percent of Wharf and about 66 percent of World's issued share capital. World and Wharf each hold 45 percent of the other.

The Hong Kong Stock Exchange suspended trading in shares of the two companies earlier in the day. But news of the merger, coming near the end of the day, was too late to affect the market.

Under terms of the merger agreement, World shareholders

(Continued on Page 19, Col. 1)

Hong Kong Securities Aide Vows Firmness

Reuters

HONG KONG — The international credibility of Hong Kong's stock market has to be developed, "and in my book credibility begins with self-regulation," the new commissioner for securities told a property forum Monday.

Commissioner Robert Fell said he strongly favors the Hong Kong market economy operating as freely as possible, and thus the question of regulation must be approached with care. Self-regulation is "enlightened self-interest," he said, but no one operating in a market can tolerate falsification or rigging. He promised to step in where necessary.

Mr. Fell noted two tasks for the commission: The development of a unified Hong Kong Stock Exchange, and the strengthening of the office of the Securities Commission. The new exchange must be a foundation of the work of the Securities Commission, he added.

He said in the use of the market, particularly in takeovers and mergers, there must be equity among all shareholders. Also, when control of a company has a value in itself, the control premium must be shared by all shareholders, and shareholders should be given adequate time and information to make their judgment about the merits of tender offers.

Prices on Wall Street Register Slight Drop

From Agency Dispatches

NEW YORK — Prices on the New York Stock Exchange closed lower Monday despite showing narrow gains most of the day as pessimism about the economy regained its dominant influence on the market.

The Dow Jones industrial average, which was up about four points at midday, weakened in the last hour of trading to close off 1.14 at 851.79. Declines edged out advances by an 8-7 margin, and volume fell to 45.25 million shares from the 52.01 million traded Friday. Brokers had been expecting a slow week with the Thanksgiving holiday approaching.

Hildegarde Zagorski of Bache Halsey Stuart Shields said the early gains were caused by the same technical factors that pushed the Dow Jones average up 8.18 Friday, rather than any positive background news.

Monte Gordon of Dreyfus Corp. said investors are still discounting the recession and, though bargain hunting and short covering may aid prices for a short period, the market is still in a downtrend.

Brokers said there was little immediate reaction to President Reagan's veto of a $427.9 billion emergency spending bill that forced an unprecedented shutdown of "non-essential" government operations.

On the NYSE floor, Marathon Oil, which soared 29¾ points last week after agreeing to a $6.4 billion takeover bid by U.S. Steel, was active and off 3 to 104⅛. Mobil has been tendered 23 million shares in its $85-a-share offer for Marathon.

In corporate news, Zenith Radio directors Monday cut the company's quarterly dividend to 7½ cents from 15 cents a share.

Directors of Falconbridge Nickel Mines of Toronto voted Monday to omit a dividend for the fourth quarter of 1981. The company paid 50 Canadian cents a share in the previous four quarters.

W.R. Grace & Co. said Monday it plans to buy up to 2.5 million, or 5.3 percent, of its shares in open market or private transactions.

UNC Resources is negotiating to acquire a company in the oil service business with revenue of about $100 million a year, Keith A. Cunningham, company president, told analysts Monday without naming the acquisition prospect.

Market Closed

All financial markets were closed Monday in Japan for a local holiday.

Libya Denies Offering Discount on Oil Price

Reuters

LONDON — Libya denied Monday oil-industry reports that it had offered the Oasis group of producers — Conoco, Marathon and Amerada Hess — tax concessions amounting to a $1-a-barrel discount.

Meanwhile, in Rome, industry sources said that Agip, the Italian state-owned oil producer, may be discussing revised terms for its equity share of oil lifted in Libya. Agip phased out contract purchases from Libya in the third quarter of this year but is still taking between 70,000 and 80,000 barrels a day of Libyan oil on an equity basis, company officials said.

Hong Kong Waiting for Bids on Billion-Dollar Bus Stop

By Stephen Addison
Reuters

HONG KONG — A slice of harbor-front land occupied by two bus depots and an old post office is set to become one of the most expensive pieces of real estate in the world.

Even by Hong Kong's heady standards, the 140,000-square-foot (13,000-square-meters) site is costly. Analysts estimate it could cost between 5.5 billion and seven billion Hong Kong dollars ($971 million to $1.2 billion), or 50,000 dollars a square foot.

The government is considering tenders for the lot, which adjoins the Connaught Centre on Hong Kong island, up to Feb. 12.

Building Requirements

The town planning board in the British colony has already said the successful bidder must build new bus depots on the ground floor, with two storeys of shops above and "other such non-industrial establishments as the purchaser might propose."

The result is likely to be one of the tallest buildings in Southeast Asia and the most expensive bus stop in the world. Hong Kong's most expensive plot of land currently works out to 26,000 dollars a square foot.

Experts feel the sums involved will be too large for a single company to raise, given the current high interest rates. Most feel a joint venture between two or more big developers is likely.

Under the terms of the tender, the development will house Hong Kong's new, unified stock exchange. The rest of the office space is certain to be eagerly sought as the island's newest prestige address with a view of the harbor.

But shops may prove more difficult to rent, property experts say. "Despite connecting walkways, it will still effectively be an island, caught between a busy main road and the waterfront," said one.

Tenders were to have been invited during the summer but delays arose over working out the complex conditions of sale. Since then high interest rates and rising inflation have resulted in prices falling by 20 percent and more in some areas. Some experts say the government will not get as much for the plot as it might have done.

The slump in demand has forced some developers to tempt prospective buyers with special deals. Others are leaving property empty in the hope of an upswing in prices.

Major falls in prices are for industrial land in the less sought-after areas in the New Territories, the mainland section of the colony.

Demand for both residential and office space in prime areas of the colony, however, has shown little or no sign of waning. Rents for prime office space are steady at 28 to 30 dollars a square foot, a three-fold rise since 1977.

In the residential sector, the cost of middle- and lower-priced property has declined but a fall in interest rates and the projected growth of Hong Kong's economy in 1982 is expected to boost prices.

Property sources underline the importance of the availability of credit in the previous price spiral and there have been warnings of the effect of a credit squeeze.

In a speech to the Hong Kong Economic Association in September, the colony's Financial Secretary John Bremridge hinted at possible credit control: "If we can contrive a simple and effective system of controlling credit creation ... We will consider its introduction to the legislative process."

Efforts to restrain credit expansion could have severe repercussions for the property market, a senior investment analyst said.

Dome Petroleum Unit Sells Oil, Gas Assets in Canada

From Agency Dispatches

CALGARY — Dome Petroleum's Hudson's Bay Oil & Gas Co. subsidiary has agreed to sell about 890 million Canadian dollars ($752 million) in oil and gas properties, the parent company said Monday.

Analysts saw the move as an attempt by Dome Petroleum to reduce its debt, estimated at 4.8 billion dollars.

The sale includes 430 million dollars in property to Maligne Resources, a subsidiary of Dow Chemical Canada, and 460 million dollars in property to Dome Canada, 48 percent owned by Dome Petroleum.

Dome Canada said that the cash flow from the transaction should enhance its ability to carry out its extensive exploration program. "At the end of 1981, after completion of this transaction, Dome Canada should have cash and government petroleum incentive grants receivable totaling in excess of 550 million dollars."

Dome Petroleum has asked Citibank to arrange a $1.8-billion credit package in connection with its bid earlier this month to acquire the 47.1 percent of Hudson's Bay Oil & Gas that it does not already own for 1.8 billion dollars in preferred shares. The credit financing was believed to be secured against the oil and gas properties of Hudson's Bay.

Dome purchased the original 52.9 percent from Conoco last June for about 2 billion dollars, financed by bank borrowings that led to concern about Dome petroleum's debt burden.

Both asset sales with Hudson's Bay are subject to the Dome-Hudson's merger, and to obtaining certain tax rulings and to financing.

Maligne, a participant with Dome in exploration activities in Western Canada, will purchase a 12½-percent interest in all Hudson's Bay Oil & Gas properties in Western Canada, excluding frontier lands, Syncrude and the other oil sands properties.

Dome Canada will acquire a 12½-percent undivided interest in all of Hudson's Bay Oil & Gas Co.'s Canadian properties. These include properties in the Western Canada, the Beaufort Sea, the Arctic islands, the East coast, Syncrude and other oil sands properties.

In addition, Dome Canada will acquire a 12½-percent working interest share in 30 million acres of undeveloped lands owned by Hudson's Bay Oil & Gas.

Approximately two-thirds of the purchase price will be borrowed on the security of the Hudson's Bay properties being acquired and the balance will be provided in cash by Dome Canada, the company said.

COMPANY REPORTS

Revenue and profits, in millions, are in local currencies unless otherwise indicated

United States

Carter Hawley Hale

3rd Quar.	1981	1980
Revenue	683.0	630.3
Profits	6.82	10.40
Per Share	0.23	0.37
9 months	1981	1980
Revenue	1,900.	1,720.
Profits	20.1	24.56
Per Share	0.68	0.85

West Germany

BASF Group

9 months	1981	1980
Revenue	24,010.	20,540.
Pretax Net	1,110.	1,150.

CURRENCY RATES

Interbank exchange rates for Nov. 23, 1981, excluding bank service charges.

	$	£	D.M.	F.F.	H.L.	Gldr.	B.F.	S.F.	D.K.
Amsterdam	2.477	4.691	109.37 *	43.355 *	0.2054	—	6.53 *	136.39 *	33.91 *
Brussels (a)	37.81	71.8625	16.74	6.875	3.144 *	15.317	—	20.86	5.199
Frankfurt	2.249	4.29	—	39.64 *	1.872 x	91.45 *	5.973 *	125.10 *	31.10 *
London (b)	1.916	—	4.3063	10.8465	2,293.43	4.7053	72.275	3.444	13.8258
Milan	1,207.85	2,288.38	532.91	211.07	—	487.50	31.857	664.26	165.48
New York	—	1.906	0.4447	0.1765	0.0828 *	0.4042	0.0264	0.5542	0.1373
Paris	5.7175	10.8485	252.29 *	—	4.737 x	230.75 *	15.072 *	314.46 *	78.41 *
Zurich	1.804	3.457	80.03 *	31.75 *	0.1498	73.25 *	4.775 *	—	24.92 *
ECU	1.0832	0.5784	2.4549	6.1851	1,306.89	2.6795	41.0483	1.966	7.8885

Dollar Values

$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$
1.1469	Australian $	0.8719	0.0677	Israeli shekel	14.78	0.4872	Singapore $	2.0525
0.0634	Austrian schilling	15.78	0.0046	Japanese yen	217.325	1.0315	S. African rand	0.9695
0.0238	Belgian fin. franc	42.05	3.5613	Kuwaiti dinar	0.2808	0.0014	S. Korean won	689.95
0.8452	Canadian $	1.1832	0.445	Malay. ringgit	2.247	0.0104	Spanish peseta	96.495
0.1384	Danish krone	7.225	0.1725	Norw. krone	5.7975	0.1818	Swedish krona	5.50
0.2288	Finnish mark	4.371	0.1172	Phil. peso	8.5324	0.0265	Taiwan $	37.79
0.0176	Greek drachma	56.825	0.0154	Port. escudo	64.798	0.0435	Thai baht	22.975
0.1766	Hong Kong $	5.6625	0.2924	Saudi riyal	3.4203	0.2723	U.A.E. dirham	3.673
1.567	Irish £	0.6382	1.1637	S.D.R.	0.8593			

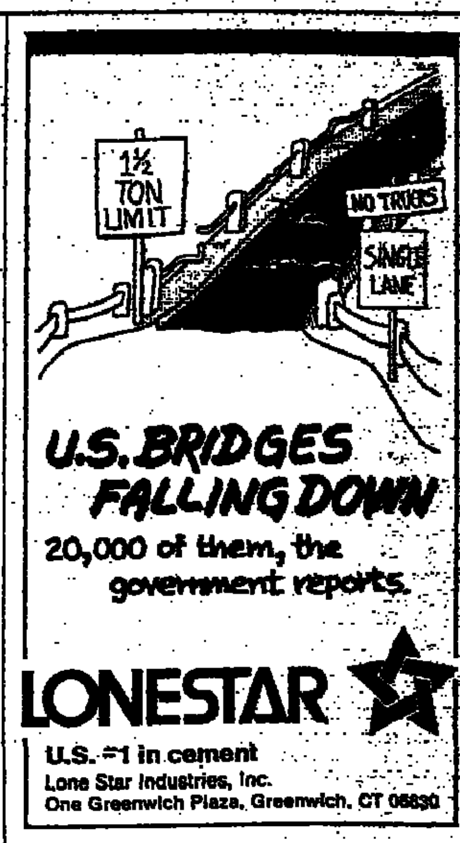
£ Sterling: 1.2125 Irish £.

(a) Commercial franc. (b) Amounts needed to buy one pound. (*) Units of 100. (x) Units of 1,000.

NYSE Nationwide Trading Closing Prices Nov. 23

Tables include the nationwide prices up to the closing on Wall Street.

12 Month High	Low	Stock	Div. in $	Yld.	P/E	Sls. 100s.	High	Low	Close Quot.	Ch'ge Prev Close
		— A-A-A —								
14¾	6⅛	AAR	.44	5.4	7	9	8⅛	8	8⅛	+ ⅛
52¼	33⅝	ACF	2.76	7.4	11	63	38¾	37½	37½	—1
28	19⅝	AMF	1.36	5.3	29	325	25¾	25⅜	25½	+ ⅛
16⅞	3⅝	AM Intl				285	4⅝	4⅜	4½	
9⅝	3⅝	APL				36	4⅝	4⅜	4⅝	+ ⅛
37¼	23¾	ARA	2	7.7	5	20	26	25¾	26	+1
81½	42¼	ASA	5a	12.		949	43½	d42	42⅝	—1⅝
45	11½	AVX	.32	2.2		99	14½	13⅞	14⅛	+1⅛
32¼	23⅝	AbtLb s	.72	2.4	15	651	29½	28⅝	29½	+ ⅞
31	17¼	AcmeC	1.40	7.3	8	90	20⅛	19⅝	19¾	+ ⅜
6¾	4	AdmDg	.04	.8	6	7	4⅝	4⅝	4⅝	
17	12¾	AdaEx	1.88e	13.		59	14⅝	14⅜	14⅜	— ⅛
7⅛	4⅝	AdmMl	.20e	3.2	7	18	6¼	6⅛	6¼	+ ⅛
42⅞	14	AMD s			21	665	17⅝	17⅛	17⅛	— ¼
45¼	30	AetnLf	2.32	5.2	7	1564	45	44½	44½	
21	14½	Ahmans	1.20	7.6	397	156	16¼	15⅝	15⅝	— ½
5⅝	2⅛	Aileen				24	2½	2⅜	2⅜	
49½	34	AirPrd	.80	2.1	8	62	37⅝	36⅞	37¼	— ¼
22⅝	9¼	AirbFrt	.60	6.0	13	28	10⅛	10	10	
15½	9¼	Akzona	.80	7.3	10	39	11⅛	11	11	— ⅛
22½	17	AlMoa n			22	268	18⅛	18	18	— ⅛
27¼	23¼	AlaP pfA3.92		15.		13	27	26¾	27	+ ¼
6⅝	5½	AlaP dpf.87		13.		51	6⅝	6½	6½	— ⅜
62½	53	AlaP pf 9		15.		z310	60½	59½	59½	—1½
68	54½	AlaP pf 9.44		15.		z190	64	62¾	62¾	+ ¼
60	49½	AlaP pf 8.28		15.		z300	56	55	56	+2
17	13⅛	Alagsco	1.60	11.	5	24	14¾	14⅝	14¾	+ ⅛
40⅛	16½	AlskInt	.60	3.1	5	461	19¾	18⅞	19½	+ ⅛
38⅞	22⅜	Albany	1.20	5.0	7	234	24¼	23½	24	— ¼
16¼	9⅝	Alberto	.50	3.8	8	10	13⅝	13⅜	13⅜	+ ⅛
28⅝	19	Albtsn	.88	3.2	9	69	27⅝	27¼	27⅝	+ ⅜
40	19⅝	Alcon	1.20	6.2	5	403	22⅛	22	22	— ⅜
21⅝	16⅝	AlcaSt	s1.08	5.3	7	150	20⅝	20⅜	20⅜	— ⅛
[illegible]										



(Continued on Page 20)

Zaire to Establish Aluminum Group

The Associated Press

KINSHASA, Zaire — A contract formally establishing the Aluzaire consortium to conduct a feasability study and eventually build a major aluminum plant in Zaire will be signed here Monday, Minister of Planning Bokana W'Ondangela said Saturday.

The project is expected to cost $1 billion, according to the Swiss-Zaire Economic Center here. Companies from Switzerland, Italy, Norway, the Netherlands, West Germany and Japan are scheduled to join Zaire in the project.

The plans foresee the building of an aluminum electrolysis plant in Inga with an initial capacity of 150,000 metric tons annually, with capcacity growing to 600,000 tons. But officials say that before the plant can be built, a deep water port at Banana must be at least sufficiently developed and the Inga-Banana high voltage electricity line must be completed.

RCA: The Long Slide Continues

By Laura Landro
AP-Dow Jones

NEW YORK — RCA has had a long fall from favor on Wall Street since reporting a surprisingly large third quarter loss of $109.3 million, which included a $150-million writeoff to cover losses at its Hertz, NBC and color TV tube divisions.

But the extent of Wall Street's disillusionment is just beginning to emerge. Analysts who six months ago considered RCA an attractive buy, with earnings expected to grow rapidly after 1981, have not only slashed their 1982 earnings estimates but say they can see no signs of recovery.

"I can't tell a potential buyer what the opportunity cost of buying RCA stock is now," said Susan Sansbury, who follows RCA for Kidder Peabody. "We don't have any idea how long it will take to turn the company around."

RCA stock is trading in the high teens, down from $27.50 a share in March, when many analysts still held buy recommendations.

What befuddles analysts is the company's direction under Thornton Bradshaw, who became chief executive officer in July. Under his predecessor, Edgar Griffiths, RCA pursued a major divestiture program since late 1980, selling such businesses as foods and the manufacturing facilities of its CIT Financial Corp. unit.

'Exploring Options'

RCA is undergoing yet another evaluation under Mr. Bradshaw. A study he commissioned from Booz, Allen & Hamilton is expected in February to recommend new directions — and no one knows where they will take the company.

Frank Alfieri, RCA's chief financial officer, will say only that "we are exploring all the options available."

Ms. Sansbury is worried that "there may be another, enormous, cathartic redeployment program," making it practically impossible to evaluate RCA's current prospects. Ms. Sansbury has cut her estimate of 1982 earnings to $2 a share from $3.25, and Russell Leavitt of Smith Barney has put 1982 earnings at $2.40 to $2.50 a share, down from $2.80. Mr. Alfieri does not quarrel with these estimates. RCA earned $3.19 a share in 1980.

Already, plenty of problems are clear. Losses are mounting from the costs of its Selectavision videodisc products, and sales have been disappointing. NBC is a mystery; analysts say they have no way of knowing how it will fare in the competitive broadcasting arena.

Crushing Debt

RCA is also saddled with enormous debt. The parent company debt alone totals $1.42 billion. Hertz debt is $1.53 billion, and CIT's is $8.1 billion. Interest expense at the parent has risen to $273.8 million so far in 1981, up from $196.1 million for all of last year. Hertz interest costs doubled in the first nine months, contributing to its $38-million operating loss. Of RCA's $150-million writeoff, $33 million net went for a restructuring at truck rental operations, and Hertz for the first time paid no dividend to the parent. The result was a recent lowering of RCA's credit ratings.

One ray of hope is the current decline in short-term interest rates, which could help RCA refinance at lower rates. CIT, for example, just announced a $400-million debenture offering.

Analysts disagree on whether RCA's problems may force it to cut its dividend. Mr. Bradshaw has said he will not recommend a cut this December. An analyst with Merrill Lynch said he sees a 40-percent chance of a dividend reduction at next March's meeting. Mr. Leavitt of Smith Barney believes that RCA will maintain its dividend.

Mr. Leavitt is encouraged by the steps Mr. Bradshaw has taken so far, such as restructuring Hertz and switching to franchised rather than owned truck-leasing operations.

Nonetheless, he said that investors "continue to be immensely frustrated with RCA." Added the Merrill Lynch analyst, "The downside risk may be gone, but the upside is a long way away."

Dresdner Struggles With Its Growing Pains

(Continued from Page 17)

to reschedule the company's debts and to underwrite and partly accept a new stock issue. Despite that aid, the company is expected to lose nearly 665 million DM this year, after losing 277 million DM last year. Last year, Dresdner was forced to write off its Telefunken shares, costing it 100 million DM. Last week, in a further action, Telefunken's banks agreed to waive capital and interest on loans totaling 240 million DM, about 21 percent of which, or 51 million DM, will involve Dresdner, eating away at profits.

Some of Dresdner's risks in other countries potentially are more serious. Since last year, the bank has led a consortium of Western banks negotiating a restructuring of Poland's debt. Earlier this year, agreement was reached with the Bank Handlowy, the Polish banking partner, on rescheduling the 1981 debt, and the agreement is expected to be signed in December.

The Poles owe Dresdner 890 million DM, excluding government-guaranteed credits, making the bank Poland's fourth-largest West German creditor. Though bank officials tend to play down the Polish risk, noting that interest payments had continued through September, the bank has seen none of the capital, and on its government-guaranteed loans the bank must write off part of the loss.

Still, Mr. Friderichs noted that "the extent of our loss will be determined by the question whether, and if so, to what extent the West will have to agree next year to waiving some payments of capital," an eventuality that grows more likely as Poland's economy stumbles from crisis to crisis.

The current problems are not the first financial setbacks the bank has faced in its history. The bank was founded in 1872 by a group of bankers in Dresden, then the capital of the kingdom of Saxony. In its early years, the bank rode the boom that followed Germany's 1870 unification and the payment of huge war indemnities by France following the Franco-Prussian war.

Twice in its history, after World War I, when it lost almost all its extensive foreign network, and after World War II, Dresdner had to start from scratch. In 1977, the bank's chairman, Jurgen Ponto, was murdered by terrorists.

Mr. Friderichs, at 50 a lively and engaging man who took over the bank's helm in 1978 after five years as the country's economics minister, said the bank lost about two-thirds of its branches after World War II because of Germany's division and the loss of its extensive eastern territories to Poland and the Soviet Union.

Poor profitability is not the only reason for the return to slower growth rates. To escape bank regulations that limit the volume of loans to 18 times a bank's basic capital, Dresdner led a parade of big West German banks into Luxembourg in the late 1960s, where they established thinly capitalized offshore operations that quickly developed vast loan portfolios.

Now, West Germany is scrambling to catch up with other Western European countries by introducing legislation to mandate consolidated balance sheets for banks. The legislation was promised by Chancellor Helmut Schmidt's government when it was re-elected last fall. Although the legislation is bogged down, the Bundesbank earlier this year elicited from the banks a commitment to begin voluntary consolidation, and Dresdner executives said they began as of Sept. 30.

Dresdner executives acknowledged that the bank is overextended, though they will not say by how much, and that it will have to trim its loan volume.

"We'll continue expanding," Mr. Friderichs said, "but with moderation, only nominal growth. Naturally the rate will depend on the growth of the world economy, and we assume here that growth is going to be slower."

Pao Sets Merger Of 2 Key Parts Of His Empire

(Continued from Page 17)

will receive 625 one-dollar Wharf shares and 350 dollars in cash for every 1,000 ordinary shares or convertible deferred shares of 50 cents shares of World.

The deal, involving 583 million Hong Kong dollars in cash, will also require Wharf to issue 411 million new shares and an additional 1.02 billion dollars of warrants to retire outstanding World warrants.

Based on Friday's closing price of 6.35 Hong Kong dollars for a Wharf share, the proposal values World's issued share capital at about 7.2 billion Hong Kong dollars.

It values World shares at 4.32 Hong Kong dollars each, a gain of 22.5 percent from Friday's 3.525 dollars but far short of their listed net asset value on March 31 of 6.27 dollars.

World forecasts net profit for the year ending March 31, 1982, will be at least 445 million Hong Kong dollars, of which the attributable proportion of Wharf's profits is 114 million dollars. In addition net extraordinary profits of 128.4 million Hong Kong dollars have been realized in the current year, it said.

Wharf has forecast 1980 taxed profit before extraordinary items of at least 300 million Hong Kong dollars.

World estimates its consolidated net assets at Sept. 30, excluding its 45 percent share holding in Wharf, at about 2.95 billion Hong Kong dollars.

250 Jobs Will Be Cut By CII-Honeywell Bull

AP-Dow Jones

PARIS — CII-Honeywell Bull, the French-U.S. data processing concern, said Monday that it intends to reduce its present work force by about 250 before the end of next year.

The company said the reduction will be offset by the integration on Jan. 1 of 250 employees from a factory at Joué-lès-Tours, which is being bought from a subsidiary of Philips.

A CII-Honeywell Bull spokesman said the reduction in the number of jobs from the present level would be carried out through attrition and offers of early retirement.

U.S. Panel Sees '82 as Year of Wage-Demand Moderation

By Damon Stetson
New York Times Service

NEW YORK — Collective bargaining settlements in U.S. industries that historically have set wage patterns in the United States are expected to be "very moderate" next year and are unlikely to exert the influence that they have in the past, according to an annual forecast by the Conference Board.

In the report, which was released Sunday, the panel of 10 labor experts from industry, unions and education predicted that first-year wage settlements would increase an average of 8 percent next year, compared with first-year increases of 11.5 percent from January through September of this year.

"The economic brakes will clearly be on," said Audrey Freedman of the Conference Board, an independent, nonprofit business research organization, and chairman of the panel. "Moderation in wage demands will not spring from job competition from the growing ranks of the unemployed, but from efforts by employers to cut labor costs. The coming year will be marked by wage freezes and reduced labor forces in many industries."

The historic "wage leadership" of such industries as automobiles, steel and trucking in establishing a general target for union bargainers has disappeared, she added. It has been replaced, she said, by a new sensitivity to company performance and a new perception of the need to be competitive.

Several economists agreed Sunday with the panel's assessment that wage demands and increases would be more moderate among major unions next year.

Otto Eckstein, the chairman of Data Resources, a major economic forecasting concern, said, however, that the decline in wage increases was not because of some unusual cost-cutting by business but was coming from the effects of the economic slump that has been increasing unemployment.

He said that some major industries such as automobile and construction would still be in "bad shape" and that union demands would be moderated because workers will be "scared for their jobs." He also predicted that there would no growth in productivity in the coming year.

Anthony Downs, a senior fellow at the Brookings Institution, a private economic research institute in Washington, said that wage settlements in major industries would be lower but that it was hard to predict what the level would be.

He added that, because wages represented two-thirds of the gross national product, a drop could have a major impact on slowing the rate of inflation. That could lead to lower interest rates and a decision by business to expand through capital investment, he said.

One of the panel's members, Robert Neylan, vice president for employee relations at Gould Inc., an Illinois maker of electrical and industrial products, suggested that weak economic growth in 1982 would keep wages down and stiffen resistance to wage increases because, with declining sales, business would be unable to recover cost increases through higher prices.

William W. Winpisinger, president of the International Association of Machinists, expressed the view that wage leadership was a thing of the past as far as the automobile and steel industries were concerned. But he said defense contracts would fatten the aerospace industry.

BIS Aide Urges Variety in Inflation Fight

AP-Dow Jones

PARIS — Governments should use a variety of approaches — in addition to monetary policy — in the fight against inflation, Alexandre Lamfalussy, assistant general manager of the Bank for International Settlements, said Monday.

Speaking at the conference on the management of foreign exchange risks sponsored by the International Herald Tribune and Forex Research, Mr. Lamfalussy suggested that governments try to "defuse inflationary expectations, promote competition and have recourse to incomes policies.

"Expenditure-restraining monetary policy is unavoidable if we want to put an end to inflation and so are its costly effects in terms of lost employment and lost real income," he said. "But surely we should seek to alleviate this social cost by trying to speed up the process of disinflation."

The BIS official suggested that governments could better "defuse" inflationary expectations by sending more signals about interest rates and credit shortages in addition to the practice of holding money supply growth to conservative targets.

On the promotion of competition, Mr. Lamfalussy said that "assistance given to declining industries, encouraging cartel agreements, enforcing minimum prices, raising tariff barriers or otherwise limiting imports are all measures in direct conflict with an effective anti-inflationary policy."

He added that fiscal policies must be consistent with monetary policies. High or rising public-sector borrowing resulting from a stimulative fiscal policy would force up interest rates. As a result, the brunt of restraint would fall on the corporate sector rather than on consumption. Ideally, both should be restrained simultaneously, he said.

NYSE Nationwide Trading Closing Prices Nov. 23

Tables include the nationwide prices up to the closing on Wall Street.

(Continued From Page 18)

U.S. COMMODITY PRICES

Chicago Futures

Nov. 23, 1981

New York Futures

Nov. 23, 1981

Monday's New Highs and Lows

China Offshore Oil Plan Said to Need $20 Billion

Reuters

CANTON — Funding of China's offshore oil exploration and production in the South China Sea will require at least $10 billion by 1985, with a further $10 billion required by 1990, Hongkong & Shanghai Banking Chairman Michael Sandberg told a conference of offshore Chinese oil Monday.

He said funding packages or syndications can be managed by the banking community in the Pacific basin in conjuction with such organizations as the Bank of China and China Petroleum Corp.

Toronto Stocks

Closing Prices, Nov. 20, 1981

		High	Low	Close	Ch'ge
150	Algo Cent	$16¼	16¼	16¼	
2068	Algoma St	$41⅛	41½	41½	
535	Andres W A	$12¼	12¼	12¼	+ ¼
2158	Argus C pr	485	485	485	— 5
3100	Asbestos	$19⅝	19½	19⅝	+ ¼
3100	Atco I	$7⅝	7⅝	7⅝	
21927	BP Can	$32⅝	31	32½	+1⅜
13662	Bank N S	$27⅝	27⅝	27⅝	
38375	Bonanza Oil	335	320	320	— 5
10800	Bralor Res	$11	11	11	
300	Brenda M	$12⅝	12⅝	12⅝	— ⅛
8495	BCFP	$11⅛	10⅞	11	
53135	BCRIC	350	320	345	+25
4184	BC Phone	$15⅝	15⅛	15⅝	+ ¼
34125	Brunswk	$15⅝	14¾	15	+ ½
1730	Budd Con	$5	465	5	+35
1580	CAE	$9	9	9	— ¼

Montreal Stocks

Closing Prices, Nov. 20, 1981

Canadian Indexes

European Gold Markets

International Monetary Market

London Metals Market

London Commodities

Cash Prices

Nov. 23, 1981

Commodity Indexes

Nov. 23, 1981

Dividends

Paris Commodities

Market Summary

NYSE Most Actives

Dow Jones Averages

Dow Jones Bond Averages

Standard & Poors

NYSE Index

Odd-Lot Trading in N.Y.

American Most Actives

AMEX Index

Selected Over-the-Counter

Closing Prices, Nov. 23, 1981

AMEX Nationwide Trading Closing Prices Nov. 23

Tables include the nationwide prices up to the closing on Wall Street.

Other Stock Markets

Nov. 23, 1981

(Closing prices in local currencies)

Eurocurrency Interest Rates

Nov. 23, 1981

	Dollar	D-Mark	Swiss Franc	Sterling	French Franc	ECU	SDR
1 M.	12 1/4 - 12 3/8	10 5/16 - 10 7/16	9 1/8 - 9 1/4	15 1/8 - 15 3/8	15 3/8 - 15 3/4	13 3/4 - 14 1/8	11 3/4 - 12 1/8
2 M.	12 3/4 - 13 1/8	10 3/8 - 10 3/4	9 3/4 - 9 7/8	14 7/8 - 15 1/8	16 3/8 - 16 5/8	14 - 14 1/2	12 - 12 3/8
3 M.	12 1/2 - 12 5/8	10 5/16 - 10 7/16	9 3/4 - 9 7/8	14 3/4 - 14 7/8	16 5/8 - 17	13 7/8 - 14 3/8	12 - 12 3/8
6 M.	12 13/16 - 12 15/16	10 1/8 - 10 1/4	9 3/4 - 9 7/8	14 3/8 - 14 1/2	17 1/2 - 17 3/4	13 7/8 - 14 3/8	12 1/8 - 12 1/2
1 Y.	13 3/16 - 13 5/16	9 7/8 - 10	8 5/8 - 8 7/8	14 1/8 - 14 1/4	18 - 18 1/2	13 1/2 - 14	12 1/8 - 12 1/2

Floating Rate Notes

Closing prices, Nov. 23, 1981

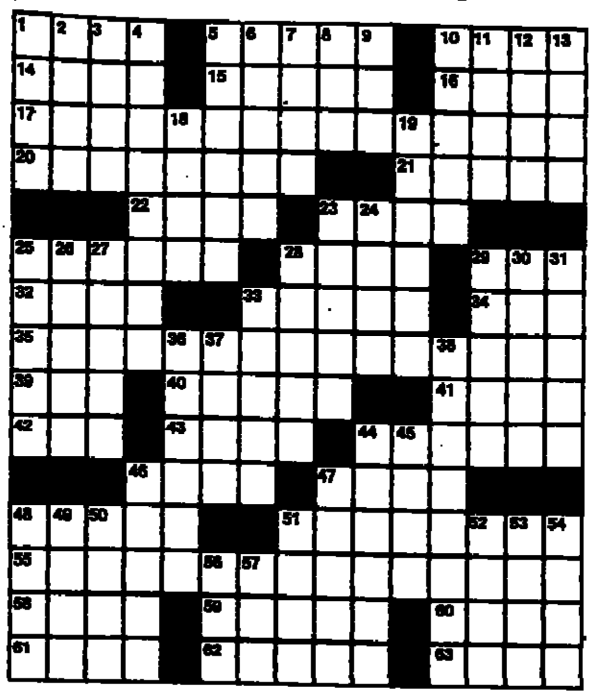
Banks

Non Banks

Prices supplied by Credit Suisse-First Boston Ltd. London.

CROSSWORD

By Eugene T. Maleska



ACROSS

1 "I Remember ——"
5 Like Falstaff
10 Clip
14 An Iraqi
15 Certain race horse
16 Whig's opponent
17 Jim Hart, e.g.
20 Soak thoroughly
21 "... all, all ——": Coleridge
22 Archibald of the Celtics
23 Revolutionary War general
25 "... out, brief ——!": Macbeth
28 "—— virumque cano"
29 Cleopatra's killer
32 Medicinal plant
33 "—— of snow-white horses ..."
34 Zeta-theta separator
35 Dan Fouts, e.g.
39 Season after printemps
40 Swedish city
41 Ireland once
42 —— Moines
43 Reptile, to an owl
44 Pencil end
46 "I—— dance ..."
47 Cole——
48 Accented syllable
51 Reading matter for Redford
55 Ahmad Rashad, e.g.
58 Ballerina's knee bend
59 He wrote "The New Art of Living"
60 Medieval slave
61 Fixes
62 Shakespearean forest
63 Photo-finish feature

DOWN

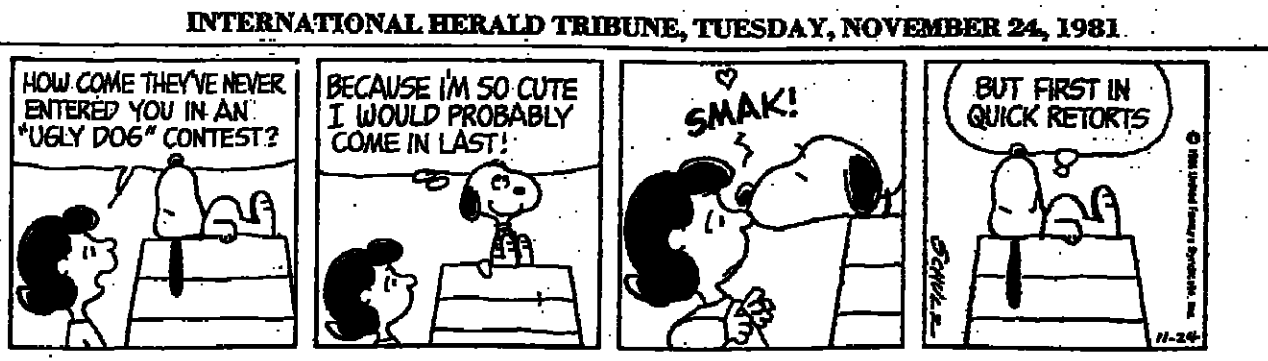
1 Church rite
2 Greek gulf
3 Beer ingredient
4 Teemed
5 Drug
6 Sew loosely
7 "Look!" to Cato
8 Caspian, e.g.
9 Slip a cog
10 Crossover on a pasture
11 "——, Nanette"
12 Neighbor of Afghanistan
13 Jim Nabors role
18 U.S.S.R. river
19 Founder of the Portuguese empire in the East
23 Painter El ——
24 Chinese nurse
25 Took a first look, as a crook
26 Winged
27 Roman calendar date
28 Tiny being
29 Protection
30 Cubic meter
31 A cook at times
33 Metal tip
36 Obtrude
37 Merit
38 Rouse again
44 Field-hockey team
45 Hindu queen
46 Médoc and hock
47 Libra holds it
48 Elec. units
49 Raise one's hackles
50 Stew of a sort
51 African village
52 Laughter, in Livorno
53 Stopovers
54 Curved molding
56 Baden-Baden, e.g.
57 Atop, to Key

WEATHER

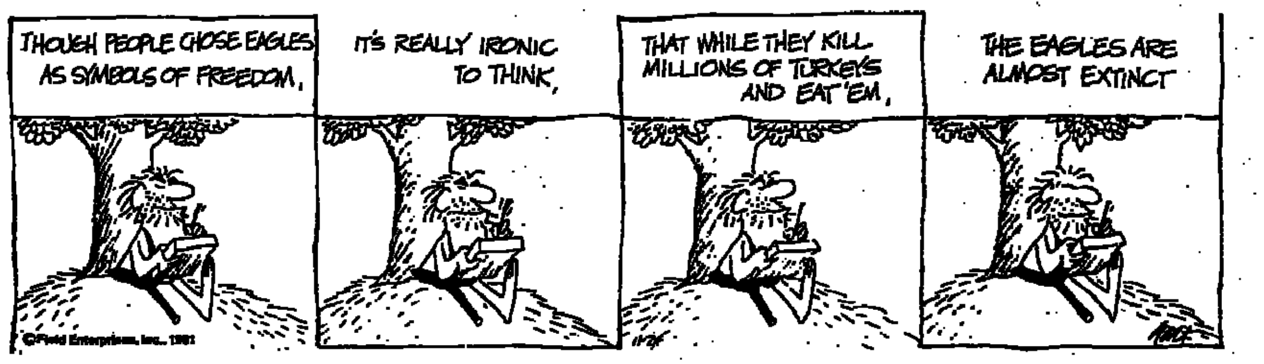
	HIGH C	HIGH F	LOW C	LOW F			HIGH C	HIGH F	LOW C	LOW F	
ALGARVE	20	68	18	64	Foggy	MADRID	14	57	5	41	Overcast
ALGIERS	24	75	9	48	Cloudy	MANILA	30	86	21	70	Foggy
AMSTERDAM	12	54	11	52	Foggy	MEXICO CITY	23	73	7	45	Fair
ANKARA	2	36	1	34	Foggy	MIAMI	23	73	10	50	Fair
ATHENS	18	64	8	46	Fair	MILAN	7	45	4	39	Foggy
AUCKLAND	20	68	12	54	Cloudy	MONTREAL	2	36	0	32	Cloudy
BANGKOK	28	82	24	75	Foggy	MOSCOW	0	32	-1	30	Snow
BEIRUT	20	68	12	54	Fair	MUNICH	15	59	3	37	Fair
BELGRADE	14	57	2	36	Foggy	NAIROBI	26	79	12	54	Fair
BERLIN	13	55	12	54	Fair	NASSAU	28	82	21	70	Fair
BOSTON	7	45	-1	30	Fair	NEW DELHI	27	81	23	73	Fair
BRUSSELS	15	59	9	48	Cloudy	NEW YORK	7	45	1	34	Fair
BUCHAREST	16	61	1	34	Cloudy	NICE	15	59	10	50	Fair
BUDAPEST	15	59	6	43	Fair	OSLO	0	32	0	32	Foggy
BUENOS AIRES	21	70	14	57	Cloudy	PARIS	14	57	7	45	Cloudy
CAIRO	21	70	9	48	Fair	PEKING	4	39	0	32	Fair
CAPE TOWN	21	70	8	46	Fair	PRAGUE	12	54	9	48	Fair
CASABLANCA	26	79	12	54	Fair	REYKJAVIK	-4	25	-10	14	Fair
CHICAGO	3	37	-5	23	Snow	RIO DE JANEIRO	27	81	22	72	Fair
COPENHAGEN	10	50	9	48	Rain	ROME	16	61	5	41	Foggy
COSTA DEL SOL	20	68	15	59	Fair	SALISBURY	26	79	17	63	Cloudy
DAMASCUS	15	59	-5	23	Cloudy	SAO PAULO	26	79	12	54	Fair
DUBLIN	15	59	5	41	Rain	SEOUL	9	48	4	39	Foggy
EDINBURGH	12	54	5	41	Rain	SHANGHAI	16	61	11	52	Rain
FLORENCE	14	57	6	43	Foggy	SINGAPORE	28	82	22	72	Cloudy
FRANKFURT	12	54	9	48	Foggy	STOCKHOLM	3	37	-2	28	Rain
GENEVA	13	55	-1	30	Fair	SYDNEY	22	72	16	61	Cloudy
HELSINKI	1	34	-3	27	Overcast	TAIPEI	26	79	20	68	Foggy
HONG KONG	24	75	21	70	Cloudy	TEL AVIV	20	68	7	45	Fair
HOUSTON	25	77	13	55	Cloudy	TOKYO	15	59	4	39	Cloudy
ISTANBUL	15	59	11	52	Foggy	TUNIS	19	66	4	39	Fair
JERUSALEM	13	55	6	43	Fair	VENICE	9	48	1	34	Foggy
LAS PALMAS	27	81	19	66	Fair	VIENNA	14	57	4	39	Cloudy
LIMA	23	73	16	61	Foggy	WARSAW	10	50	9	48	Overcast
LISBON	18	64	13	55	Foggy	WASHINGTON	8	46	1	34	Fair
LONDON	13	55	12	54	Rain	ZURICH	12	54	2	36	Foggy
LOS ANGELES	21	70	12	54	Fair						

Readings from the previous 24 hours.

PEANUTS



B.C.

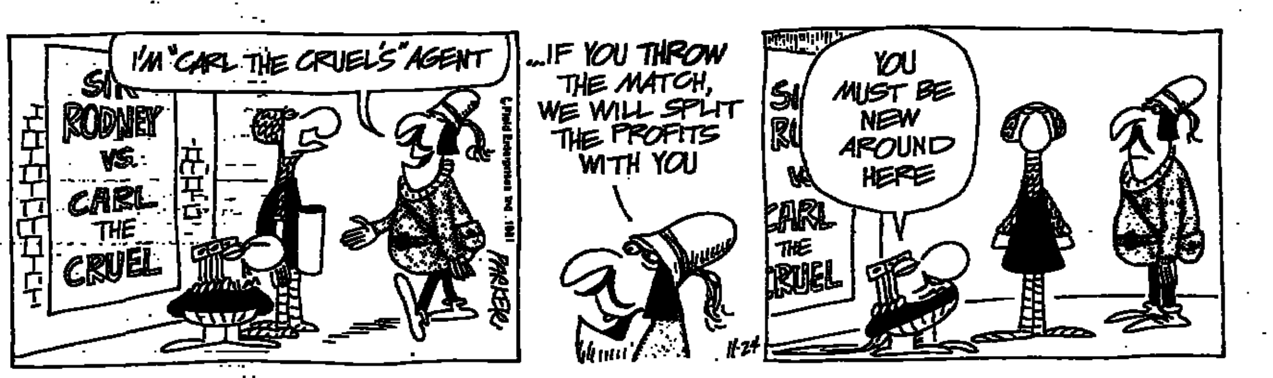


BLONDIE

BEETLE BAILEY

ANDY CAPP

WIZARD of ID



REX MORGAN

DOONESBURY

JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

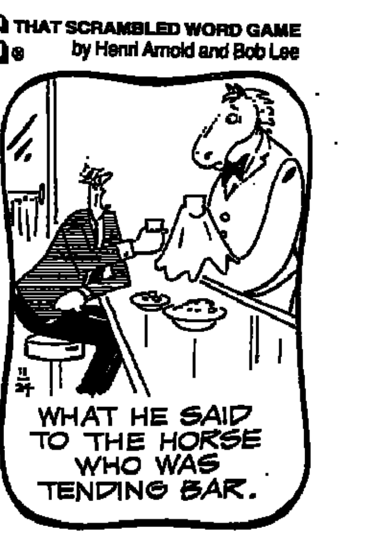
Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

PROAV

SYNIH

VONCLE

NUGLET



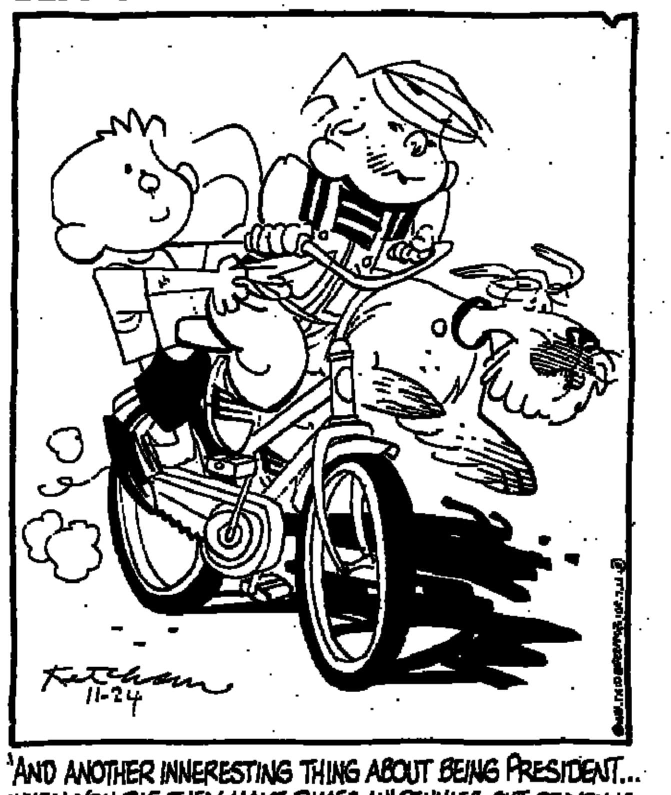
Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer: "□□□□□ ME A □□□□□"

(Answers tomorrow)

Yesterday's Jumbles: IDIOM DERBY GRAVEN TARTAR
Answer: The card game the captain should stick to—"BRIDGE"

DENNIS THE MENACE



"AND ANOTHER INNERESTING THING ABOUT BEING PRESIDENT... WHEN YOU DIE, THEY MAKE DIMES AN' PENNIES OUT OF YOU!"

BOOKS

REINHART'S WOMEN

By Thomas Berger. 295 pp. $13.95.

Delacorte Press/Seymour & Merloyd Lawrence Books, 1 Dag Hammarskjöld Plaza, New York 10017.

Reviewed by John Leonard.

THOMAS BERGER sneaks up on the reader. He seems to have scrubbed down the English language to some quizzicality. A sentence seems to be asking itself what it means, and what is omitted. Of course, Reinhart — who has been around American literature as long as John Updike's Rabbit (this is the fourth of Berger's novels through which he has puzzled his way) — plays with words. We are told, though: "Real feelings exist all the same. Words really do stand for something, after all, but maybe it's not always what you expect." An entire book of such words and sentences looks surprisingly like a Mondrian, all straight lines and primary colors, a grid that trembles.

Breaking Eggs

Why should we care about Reinhart, this 54-year-old six-feet-plus of words and intimations, this embodiment of flummoxed decency, this intrepid loser? He has failed at European history, at marriage, at the real-estate business and at cryogenics; one of his old friends from "Vital Parts," the late Splendor Mainwearing, is still on ice. Surely he will fail at fatherhood and on television, as an early morning chef, breaking eggs. Surely the egg is symbolic, and Reinhart is cracked.

We care — I do, anyway — because Berger sneaks up on us with a civility that is almost heroic. The old words are better than the new ones. There is much in the modern world that Reinhart finds incomprehensible, like junk food, shopping malls, underground garages, motels, the '60s, his son Blaine and women. He has, in fact, flunked women. He knows, as Virgil has pointed out, that "there are tears in things." He would prefer, however, to be "in cahoots" rather than to "hang in there," alone, or to drop out. That "nobody had expired of shame in a good century" says to him something pejorative about the century. Shame is an aspect of civility. And so he has taught himself to be an excellent cook, fixing meals that no one will eat.

His daughter won't touch his food. When we last met Winona, she and Reinhart were watching television and eating popcorn, and she was fat. She is now skinny enough to be a model who pays for their apartment-with-a-view, while Reinhart cooks and cleans. Winona is having a lesbian affair with a business executive, Grace, on whom Reinhart himself had designs. Reinhart's daughter-in-law, Mercer, is going crazy from drink, and her husband, Blaine, is even nastier than Rabbit's son, Nelson, in the latest Updike. And Reinhart's awful former wife, Genevieve, reappears to propose remarriage before staging a nervous breakdown. We have a Mondrian stew, or chili con carne and primary emotions.

Grace gets Reinhart a job demonstrating how to prepare gourmet meals in a supermarket, which leads to a couple of minutes on a television program during which an aging actor dies of a heart attack. Mercer shows up naked in Reinhart's bathroom and behind the wheel of a car. Blaine tries to stuff Reinhart in a commune run by Splendor Mainwearing's son, Raymond, who used to be Captain Storm of the Black Assassins.

Meanwhile, I haven't mentioned Marge, who runs a restaurant out of town, nor Edith, a young neighbor of Reinhart's, nor Helen, who acquaints him with motels, nor any of the television bubbleheads who would make him a star. It often seems that Reinhart is the only straight line in a crooked society, and he seldom leaves the kitchen.

After having revised himself in four novels, Reinhart sticks to his last, his ribs. Cooking food is specific to human beings. Other species might think; how do we know? They might grin; consider a cat. We alone cook the food we eat just as lovers feed on one another; passion is devouring, and philosophers live on food for thought, until we ourselves are consumed by microbes or "the crab named cancer." Reinhart, being nibbled on, takes offense when people tell him fancy food sickens their stomachs: "It was humanity's way to suspend the rules of courtesy when speaking of food or art."

Is this profound? Perhaps. Reinhart refuses any more to accept insults. Home on the grange, he feels for the first time in half a century that he is neither "charlatan or buffoon." Having learned a trade, he has also acquired some principles: "I'm not in the irony game anymore, believe me. I'm too old for it." And: "I don't ever make fun of anybody." And: "When your adversary is at last at your mercy, he is no longer the proper object of revenge." Finally: "Food is really kinder than people."

He will form his own commune. It will consist of those who understand, in cahoots, that "*no one* understands the pressures on *anyone* else, irrespective of sex" and who love food. Enough of dying falls; "Reinhart's Women" ends with a dying ascent. Berger, having exhausted such popular forms as the western, science-fiction and the detective novel, is full of marvelous self-help. It is as if Reinhart were to say to Beckett's Malone: "Eat; you'll feel better. I certainly did."

John Leonard is on the staff of The New York Times.

Solution to Previous Puzzle

JANET CARS GANG
UNITE ALAW AGAR
TENON RENO BOCA
SWANSEA DOGEARS
ELF ONESTEP
GARP MERMEN
ALEUTS ALDERMAN
UTICA IVY VIAND
LONESOME PATINA
TRISTE AMOK
INSPECT IDS
KENOSHA TOTTERS
EWER ITCH RADIO
DEAN DOVE ORION
ALDO SRIS POETS

Designer Cardin Opens Peking Display Boutique

United Press International

PEKING — Pierre Cardin opened a display boutique Saturday on the grounds of the Temple of Heaven, the first such foreign endeavor in China.

Firecrackers and Western music accompanied the opening of the shop, which displays Cardin fashion and other signature merchandise but does not sell them. Cardin said plans are under way to open a shop in Peking in the near future. "The intention is to open more shops where goods will be available for the Chinese public at a very good price," he said.

BRIDGE

By Alan Truscott

A SLIGHT disappointment for the spectators at the world team championships now in progress in Port Chester has been the failure of the Polish team to bring any of its players who use a "strong pass" system. Since such methods force the players to open the bidding with all weak and medium hands, the Poles may find themselves suffering heavy penalties. Against that, they create totally unfamiliar situations for the opponents, who will seldom have a free run when they have strong hands.

In compensation, the spectators have been able to see two British pairs using exotic methods. Tony Sowter and Steve Lodge employ a weak-or-strong pass some of the time. When they are not vulnerable, a pass — as dealer or in second seat — shows either a maximum of 6 points or a minimum of 17 points.

Even more weird is the system used by John Collings and Paul Hackett, which might be called an average-pass system. A pass in first or second position shows exactly 9 to 12 points, a range that occurs slightly more than one-third of the time. When their hand is not strong enough to pass, they bid one club, although that is not necessarily weak. It is a three-way bid which may turn out to be a normal opening or a flat hand with 20 to 23 points.

NORTH
♠ A K 5
♡ 6
◇ A Q J 10 7 5
♣ A 8 2

WEST
♠ 6 4 3
♡ A Q 10 5 2
◇ —
♣ J 10 9 7 6

EAST
♠ J
♡ 4 3
◇ 9 8 6 4 3 2
♣ K Q 5 4

SOUTH (D)
♠ Q 10 9 8 7 2
♡ K J 9 8 7
◇ K
♣ 3

Both sides were vulnerable. The bidding:

South	West	North	East
Pass	Pass	1 ◇	Pass
1 ♠	Dbl.	Redbl.	2 ♣
Pass	Pass	3 ♣	Pass
3 ♡	Dbl.	3 ♠	Pass
4 ♠	Pass	4 N.T.	Pass
5 ♠	Pass	5 ◇	Pass
5 N.T.	Pass	6 ◇	Pass
6 ♠	Pass	Pass	Pass

West led the club jack.

The diagramed auction would seem slightly odd to a standard bidder. Why would South not show his hearts at his third turn? And how can North afford to continue beyond game when his partner appears to be very weak?

The explanation is that North and South were Hackett and Collings, playing in a match against Hungary in the 1981 European Championship. The original pass by South showed 9 to 12 points: With any weaker hand, he would have opened one club. The auction permitted West to show length in the unbid suits with a takeout double, an action he would later regret.

North's five-diamond bid was an asking bid, and six diamonds a suggestion for a final contract. But Collings had no hesitation in reverting to spades, for which his partner had indicated support.

The club jack was led and won with the ace in dummy. The spade ace was cashed, and the jack appeared, obviously a singleton. The routine play at this point was to cash the diamond king, planning to draw trumps ending in dummy and then run diamonds.

But Collings had a significant clue from the bidding. West had shown length in clubs and hearts, and appeared to have begun with three spades. That left him with at most a singleton diamond, and a void was quite likely.

So, at the second trick, Collings simply led a heart from the dummy and was in full control. With any return he could maneuver to ruff a heart high in the dummy and draw trumps. Eventually, he would overtake the diamond king and emerge with six trump tricks, one ruff and five tricks in the minor suits. The only slight risk was that East held the heart ace together with six diamonds, in which case no line of play could succeed.

In the replay, North-South also reached six spades, but there was no revealing bidding from the opponents. South won the club lead, drew two rounds of trumps with the ace and queen, and attempted to cash the diamond king. West happily ruffed and cashed the heart ace for down one.

Spare a tear for the Hungarian declarer who went down by failing to allow for a 6-0 diamond break. It is not even clear that he was wrong in theory, for the safety play would cost him one international match point 66 times for every time it saved him 17.

Baseball, Nature's Way

New York Times Service

NEW YORK — American intellectuals from Billy Martin to George Steinbrenner have studied the science of baseball with varying results. Perhaps they are too close to the subject, unable to see the forest for the trees. Consequently, it is a blessing to view the subject briefly from the detached standpoint of the distinguished British scientific journal, Nature.

The following was written soon after the Los Angeles Dodgers defeated the New York Yankees for the fourth consecutive time, thereby winning the baseball championship of North America, not counting Cincinnati and St. Louis:

"The city of New York has had a bad week. The leading article in last Thursday's New York Times was understandably entitled, 'The Shape of New York's Shame.' Oddly, however, the newspaper was castigating the city council for a piece of flagrant but routine gerrymandering with the city's electoral boundaries, incurring as a result a reproof from the courts.

"But . . . the shame hanging over the city was the humiliating defeat the previous evening of the city's most prosperous baseball team, the New York Yankees. In the process, the Yankees also lost the best-of-seven competition between North American baseball teams quaintly known as the 'World Series.'

It's Called a 'Bat'

"[The] defeat was all the more galling because the Yankees were soundly beaten by the Los Angeles Dodgers, within living memory resident in Brooklyn and much resented for their defection. The gloom is yet another proof that something must be done to reform spectator sports in which the object is to hit a ball with some solid object, in baseball called a 'bat.'

"At least to a first approximation, the interaction of a baseball and a bat is a soluble two-body problem. The bat in baseball is a simple object, cylindrically symmetrical about an axis, while the complication arising because some ball-throwers (called 'pitchers') claim to be able to throw 'curveballs' is irrelevant to last week's disasters because both teams appear to have been incapable of hitting them.

"Moreover, since baseball officials have taken to measuring the speed with which individual baseballs are delivered, there is a wealth of empirical data on which a proper mechanics of baseball might be founded. Speeds of up to 40 meters per second are recorded.

"The difficulty of baseball is, first, that of hitting the ball and, second, that of knowing where it will go when hit: Good players appear to be able to hit one fair ball in three, but usually even the best players appear at a loss to know whether the ball will shoot high in the air (in which case it may be caught and they will be dismissed), vertically downward into the ground or upward and backward, into the crowd.

"Only occasionally, perhaps half a dozen times in several hours, does the ball perform as every batter hopes, carrying over the boundary fence for a home run.

"Thus, it appears, baseball has become an elaborate game of chance. In this year's World Series, there seems to have been little to

RED SMITH

choose between the batting performance of the two teams. Part of the reason the Yankees lost is that they were not as skilled at catching and throwing the ball as were the Dodgers.

"It is a matter of great importance to devise some way of ridding baseball of the luck on which it now depends, and which is a simple consequence of the circular cross-section of the baseball bat. Is there a place in baseball for the cricket bat?

"Even New Yorkers will agree, however, that the most serious cause of the Yankees' defeat was the evil chance that attended one of the crucial decisions by the team's manager, Mr. Robert Lemon. The issue was complicated by the requirements of this year's rules for the World Series that the pitcher, the man who throws the ball for his team, should also take his turn with the bat.

"At a point halfway through [the] last game, Mr. Lemon exercised his right to replace his successful pitcher, due to bat, with somebody reputed to be more skilled at hitting the ball but who promptly failed to do so.

"Yet if the gamble had succeeded, the Yankees would have gained three runs and the Dodgers would have been too demoralized to sustain the struggle.

"What will happen now to Mr. Lemon, who works for an owner so hot-tempered that he had to watch [the] game with his hand in a cast after a fist fight in a Los Angeles elevator, remains to be seen. Wisely, he has been keeping his own counsel.

"But is it not demeaning, and intolerable, that grown men's careers and the temper of a great city should be determined by the apparently random trajectories produced by trying to hit a baseball with a cylindrically symmetrical bat?"

Titlist Russians Gain Edge In World Gymnastics Meet

From Agency Dispatches

MOSCOW — The defending champion Soviet Union took an early edge Monday in the men's team and individual competitions after the compulsory exercises on the opening day of the 21st World Gymnastic Championships.

The Russians held a two-point lead over Japan in the race for the team title and took over the first four places in the combined individual standings. The leading 36 will qualify for the finals.

The Soviet squad, spurred by a partisan crowd of 17,500, logged 293.60 points to Japan's 291.50 and seemed likely to repeat its 1979 triumph in Fort Worth, Texas, when it unseated Japan, which had won the title five straight times.

East Germany was in third with 290.20 points, ahead of China (290.00), the United States (286.70), West Germany (286.10), Bulgaria (285.55), France (285.15), Hungary (284.90) and Romania (284.60).

Yuri Korolev's 58.95 points led the individual standings, with Soviet teammate Alexandr Ditiatin, the world and Olympic champion, second at 58.80. Bogdan Makuc (58.75) and Alexandr Tkachev (58.70) were third and fourth in a strong Soviet showing.

Korolev, European silver medalist earlier this year, scored 9.90 for the vault, 9.85s on the floor and pommel horse, 9.80s for the rings and parallel bars and 9.75 for the horizonal bars.

The top four were followed by Noboyuki Kajitani of Japan (58.55), Urtur Akopian of the Soviet Union (58.35) and East German Michael Nikolai (58.30). Koji Gushiken of Japan and Fei Tong of China shared eighth with 58.25 points and Li Ning of China was 10th with 58.20.

Gushiken could have been well up with the contenders, except for two mistakes on the rings, on which he earned a disappointing 9.25 after registering the day's highest mark with 9.95 on the parallel bars.

One of the upsets was the failure of East German Roland Bruckner, well down in the standings after posting a low of 9.40 in the floor exercise — in which he holds the Olympic, World Cup and European titles.

The United States, third behind the Soviet Union and Japan in 1979, was happy with its position. "We did not expect to get as high marks here, but we did well," said assistant coach Makoto Sakamoto of the University of California, Los Angeles. "It was a consistent performance and I am really happy with the whole team."

The women's competition starts Tuesday with the compulsory exercises. The Soviet Union expects to recapture the team title from Romania, which will be without Nadia Comaneci. She decided to pass up the competition but is in Moscow as a spectator.

NBA Standings

EASTERN CONFERENCE

Atlantic Division

	W	L	Pct.	GB
Philadelphia	11	1	.917	—
Boston	10	2	.833	1
New York	4	7	.364	6½
Washington	3	8	.273	7½
New Jersey	2	10	.167	9

Central Division

	W	L	Pct.	GB
Detroit	7	4	.636	—
Atlanta	6	4	.600	½
Milwaukee	7	5	.583	½
Indiana	5	7	.417	2½
Chicago	5	8	.385	3
Cleveland	4	7	.364	3

WESTERN CONFERENCE

Midwest Division

	W	L	Pct.	GB
San Antonio	9	3	.750	—
Utah	6	5	.545	2½
Denver	5	5	.500	3
Houston	6	7	.462	3½
Kansas City	3	8	.273	5½
Dallas	1	11	.083	8

Pacific Division

	W	L	Pct.	GB
Portland	8	3	.727	—
Los Angeles	9	4	.692	—
Golden State	7	4	.636	1
Phoenix	6	5	.545	2
Seattle	5	5	.500	2½
San Diego	2	8	.200	5½

Sunday's Result

Seattle 109, New Jersey 92 (Shelton 22, Donaldson 15; Birdsong 16, Cook 14).

NHL Standings

WALES CONFERENCE

Patrick Division

	W	L	T	GF	GA	Pts
NY Islanders	12	4	4	82	70	28
Pittsburgh	9	8	4	79	82	22
Philadelphia	10	9	1	72	89	21
NY Rangers	8	12	1	70	88	17
Washington	5	14	1	67	79	11

Adams Division

	W	L	T	GF	GA	Pts
Quebec	13	9	2	110	96	28
Boston	12	5	4	87	66	28
Montreal	11	3	5	102	49	27
Buffalo	10	5	6	76	64	26
Hartford	3	10	7	63	85	13

CAMPBELL CONFERENCE

Norris Division

	W	L	T	GF	GA	Pts
Minnesota	11	4	5	93	56	27
Chicago	9	5	7	108	89	25
Winnipeg	9	8	3	81	92	21
Detroit	7	9	5	82	89	19
St. Louis	7	12	3	81	92	17
Toronto	5	11	4	86	94	14

Smythe Division

	W	L	T	GF	GA	Pts
Edmonton	13	6	3	112	82	29
Vancouver	9	9	4	80	77	22
Los Angeles	9	12	0	93	104	18
Calgary	5	12	5	73	104	15
Colorado	3	13	4	53	103	10

Sunday's Results

Washington 3, Philadelphia 2 (Hangsleben (1), Maruk (15), Valentine (1); Flockhart (4), Barber (11)).

Quebec 6, Boston 1 (Cote 2 (4), Frycer 3 (8), M. Stastny (16); Park (3)).

N.Y. Islanders 7, N.Y. Rangers 2 (Tonelli (7), Trottier (6), Gillies (7), Nystrom (6), Sutter 2 (6), Kallur (6); Pavelich (6), Vadnais (3)).

Winnipeg 5, St. Louis 4 (Wilson (2), Hawerchuk 2 (12), Small 2 (9); Sutter 2 (18), Pettersson 2 (8)).

Minnesota 1, Chicago 1 (Ciccarelli (13); Higgins (10)).

Colorado 5, Vancouver 5 (B. Miller (5), Ramage 2 (5), Ashton (3), Tambellini (10); Bubla (1), Boldirev (12), Williams (4), McCarthy (1), Minor (4)).

Zaccio Wins Colonial Cup

United Press International

CAMDEN, S.C. — Heavily favored Zaccio, biding his time through most of the race, moved from next-to-last in the backstretch Sunday and surged into the lead with one hurdle remaining to win the 12th annual Colonial Cup steeplechase by 11 lengths. French-trained Al Arof finished second, three lengths ahead of defending champion Sailor's Clue.

Transactions

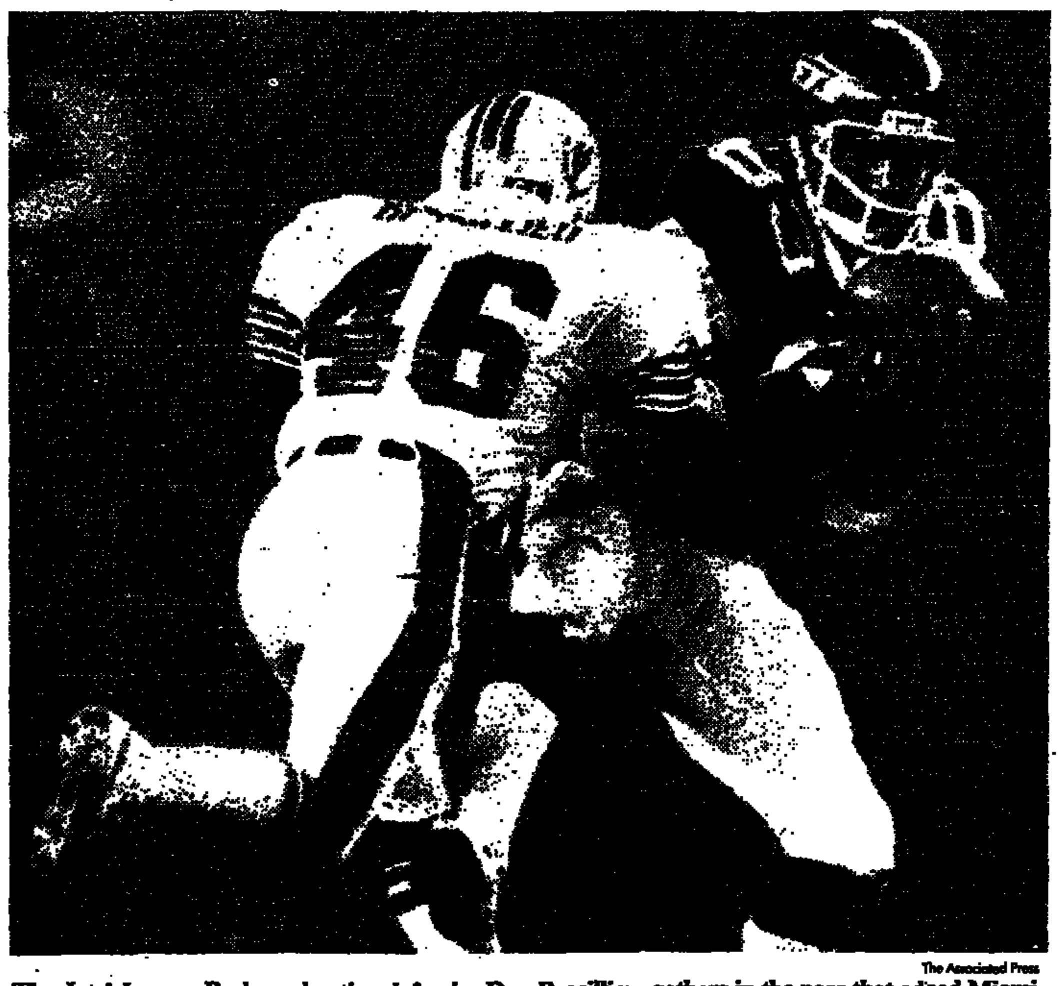
HOCKEY

National Hockey League

ST. LOUIS—Recalled Neil Labatte, defenseman, from Salt Lake City of the Central Hockey League.

COLLEGE

PURDUE—Named Leon Burtnett, head football coach.



The Jets' Jerome Barkum, beating defender Don Bessillieu, gathers in the pass that edged Miami.

The Associated Press

Frazier, Training for a Comeback, Is Battling His Age and Entourage

By Michael Katz

New York Times Service

PHILADELPHIA — On one wall of the clean, well-lighted gym, the exposed brick is covered with blown-up photographs of Joe Frazier's memorable career. On the opposite wall hangs a series of mirrors, in front of which the boxers skip rope and shadowbox, seeing what they want to see.

In these spotless mirrors, Frazier sees the memory of a heavyweight champion who, at the age of 37 and after a five-and-a-half-year retirement, is convinced he is what he was.

"Everybody tells me they love me and don't want to see me get hurt," he says. "I love me. I'm not about to get me hurt. I know what I'm doing.

"Besides, a man's got a right to do what he wants even if he hurts himself."

It is less than two weeks to his on-again, off-again, on-again comeback fight and, quite improbably, he is beginning to look like Smokin' Joe again. Almost.

He has thickened with time, and the thickness is covered with layers of fat. Some layers have been removed in the last few weeks as the training has become more serious, and the feared left hook, only a whisper two weeks ago, is shouting again as he grunts his way through workouts.

He has come down from 240 pounds to 229 and wants to weigh in at 222 for his Dec. 3 fight in Chicago against Jumbo Cummings. He was 205 ½ when he defeated Muhammad Ali 10 years ago.

He does not see that he is older and slower, only that he is older and better. No one can tell him otherwise. Not the Illinois State Athletic Board, which has granted him a license to box even though it does not want him to. "You can't tell people what to do," said Nick Karasiotis, the board's executive secretary.

Frazier's wife Florence hasn't convinced him not to fight again. So she will be in Chicago "praying to God he don't get hurt." And even the advice of his old friend and trainer, Eddie Futch, has gone unheeded.

It was Futch who, in 1975, would not let Frazier out of the corner for the 15th round against Ali in Manila. Futch also is the man, who, in 1976, threw in the towel on Frazier's last fight, against George Foreman. The comeback makes Futch sad. "Every one of us thinks we can do things we used to do," he said.

Bruce Wright, Frazier's longtime lawyer and adviser, said his opposition to the comeback has led to an estrangement. "I remember Joe sitting in the corner of the ring in Long Island [against Foreman]," Wright said.

Frazier was sitting in a daze on the canvas in the Nassau Coliseum. Foreman was standing above him, a knockout winner over Frazier for the second time. Ali also beat Frazier twice. Frazier was undefeated against the rest of the world.

No Requiem

The television networks, which have refused to buy his comeback, haven't been able to dissuade him either. "We don't want a requiem for a heavyweight," said NBC boxing advisor Dr. Ferdie Pacheco, who was dismissed from Ali's corner when he advised Ali to retire four years ago.

Frazier will get only $85,000, for the fight plus $15,000 in training expenses. He readily concedes that "everyone needs money."

Cummings is a once-beaten club fighter of size and strength but little boxing skill. For a while, Frazier's comeback appeared imaginary. First it was Scott LeDoux, then it was Monte Masters; now it is Cummings.

"Is this boxing, wrestling or skating?" Frazier asked about the current crop of fighters. "They aren't hitting each other. After 10 rounds, there are no cuts and no blood. I don't call that boxing. I want to give the fans their money's worth."

Futch has seen it with former fighters. "These old-timers sit back and see these kids and naturally they know more about boxing than they do," he said. "But they forget they're past the point of no return. It's a matter of split seconds, the difference between slipping a punch and getting hit by it. And when you're 22 or 25 or 27, if you do get hit, it takes just a couple of seconds to recuperate. As you get older, the body functions slow up."

Pacheco said 35 was the maximum age at which a man should be allowed to fight. "I would gladly sacrifice the few golden moments of watching Sugar Ray Robinson and Archie Moore fight after that," he said, "not to see any of the guys marching around at the age of 50 or 60 with thickened brains and raspy voices."

Tests

Frazier has passed a stringent preliminary physical, including a brain scan and tests on his heart and his often troublesome blood pressure. The Illinois board will give him another physical five days before the fight.

Three years ago, when Frazier was talking about trying again, Futch was surprised to discover that "Joe had a few fights left." But that was aborted when Frazier came down with hepatitis. This time, Futch has not been invited back because he is against the comeback.

"But I'd like to be in a position to protect him," he said, "in the event he got in trouble."

The Associated Press

Joe Frazier

. . . *In his prime.*

NFL Standings

AMERICAN CONFERENCE

Eastern Division

	W	L	T	PF	PA	Pct.
Miami	7	4	1	275	238	.625
N.Y. Jets	7	4	1	265	244	.625
Buffalo	7	5	0	237	209	.583
New England	2	10	0	257	277	.167
Baltimore	1	11	0	209	412	.083

Central Division

	W	L	T	PF	PA	Pct.
Cincinnati	9	3	0	330	224	.750
Pittsburgh	7	5	0	275	229	.583
Cleveland	5	7	0	208	261	.417
Houston	5	7	0	210	263	.417

Western Division

	W	L	T	PF	PA	Pct.
Denver	8	4	0	241	194	.667
Kansas City	8	4	0	303	224	.667
San Diego	7	5	0	378	312	.583
Oakland	5	7	0	195	239	.417
Seattle	4	8	0	209	289	.333

NATIONAL CONFERENCE

Eastern Division

	W	L	T	PF	PA	Pct.
Dallas	9	3	0	289	232	.750
Philadelphia	9	3	0	297	172	.750
N.Y. Giants	6	6	0	242	213	.500
St. Louis	5	7	0	248	327	.417
Washington	5	7	0	258	284	.417

Central Division

	W	L	T	PF	PA	Pct.
Minnesota	7	4	0	250	238	.636
Detroit	6	6	0	291	254	.500
Tampa Bay	6	6	0	217	190	.500
Green Bay	5	7	0	220	286	.417
Chicago	3	9	0	176	275	.250

Western Division

	W	L	T	PF	PA	Pct.
San Francisc	9	3	0	270	214	.750
Atlanta	5	6	0	297	223	.455
Los Angeles	5	7	0	268	271	.417
New Orleans	4	8	0	166	261	.333

Sunday's Results

Cincinnati 38, Denver 21
Detroit 23, Chicago 7
Tampa Bay 37, Green Bay 3
Buffalo 20, New England 17
New Orleans 27, Houston 24
N.Y. Giants 20, Philadelphia 10
Pittsburgh 32, Cleveland 10
Kansas City 40, Seattle 13
St. Louis 35, Baltimore 24
N.Y. Jets 16, Miami 15
San Diego 55, Oakland 21
San Francisco 33, Los Angeles 31
Dallas 24, Washington 10

Monday's Game

Minnesota at Atlanta

Jets Rally to Defeat Dolphins

From Agency Dispatches

NEW YORK — Quarterback Richard Todd's 11-yard touchdown pass to Jerome Barkum with 16 seconds to play and the extra point by Pat Leahy, who had already kicked three field goals, gave the New York Jets a 16-15 National Football League victory over Miami Sunday and propelled them into a first-place tie with the Dolphins in the American Conference East.

Playing despite a fractured rib, Todd drove the Jets 77 yards in 10 plays for the winning score after

NFL ROUNDUP

Uwe von Schamann had given Miami a 15-9 lead with a 23-yard field goal with 3:10 left.

Todd, who completed 21 of 38 passes for 203 yards on the day, threw 9 times in the 10-play drive that enabled the Jets to stretch their unbeaten streak against the Dolphins to eight games. It was New York's fourth victory in a row.

"I stood on the sidelines crying after we scored," said Todd. "It was like a dream." He wore a specially designed flak jacket to protect the rib he broke in last week's victory over New England.

"On the final drive, the offensive line was keeping them out," Todd said. "It was great. I just hit whoever was getting open.

"It's a good feeling to be in first place."

Trailing 6-0 early in the second period, the Dolphins scored 12 points before halftime on Tony Nathan's 4-yard touchdown run, a safety when Todd was tackled in his own end zone and von Schamann's 46-yard field goal.

Chiefs 40, Seahawks 13

In Kansas City, Mo., Bill Kenney threw for two touchdowns and rookie Billy Jackson scored twice on short runs as the Chiefs swamped Seattle, 40-13.

49ers 33, Rams 31

In Anaheim, Calif., Ray Wersching kicked his fourth field goal of the game as time expired, boosting San Francisco past Los Angeles, 33-31.

Wendell Tyler had plunged 1 yard for a touchdown with 1:51 remaining to put the Rams on top, 31-30, completing a comeback sparked by quarterback Pat Haden. But 49er quarterback Joe Montana then completed passes good for for 54 yards in the winning drive.

Los Angeles led 17-10 at halftime but the 49ers surged back in the third quarter on a 92-yard kickoff return by Amos Lawrence, a 35-yard field goal by Wersching and a 25-yard interception return for a touchdown by Ronnie Lott.

After Lott's score, which made it 27-17, Haden replaced Dan Pastorini and guided the Rams on an 80-yard touchdown drive in 9 plays climaxed by his 2-yard scoring pass to tight end Walt Arnold. Wersching put San Francisco ahead, 30-24, with a 32-yard field goal with 10:10 remaining, but the Rams took the ensuing kickoff and drove for what looked like the winning touchdown.

Chargers 55, Raiders 21

In Oakland, Calif., Dan Fouts set a club record with six touchdown passes — Kellen Winslow tied an NFL mark by catching five of them — as San Diego buried the Raiders, 55-21.

Winslow tied a single-game record set in 1950 by Bob Shaw of the Chicago Cardinals.

Cardinals 35, Colts 24

In Baltimore, Ottis Anderson ran for 130 yards, going over the 1,000-yard mark for the third straight season, and scored two touchdowns as St. Louis handed the Colts their 11th straight loss, 35-24.

The Cardinals broke a 7-7 first-period tie when Dave Andrews intercepted a Bert Jones pass and ran 14 yards for a touchdown.

Lions 23, Bears 7

In Chicago, Eric Hipple ran for a touchdown and Ed Murray kicked three field goals as Detroit breezed past the Bears, 23-7. Chicago was held to 24 net yards, the lowest output in franchise history.

Cowboys 24, Redskins 10

In Arlington, Texas, Danny White threw scoring passes of 28 yards to Butch Johnson and 10 yards to Doug Cosbie to lift Dallas past Washington, 24-10, snapping a 4-game Redskin winning streak.

The losers were handicapped by the loss of halfback Joe Washington, who rushed 12 times for 84 yards and caught 3 passes for 47 yards in the first half. He suffered a torn rib cartilage near the end of the second period and did not return.

Edmonton Nips Ottawa For 4th Title in a Row

The Associated Press

MONTREAL — Dave Cutler's 27-yard field goal with three seconds remaining gave the Edmonton Eskimos a 26-23 Grey Cup victory Sunday over the Ottawa Rough Riders. The winning kick capped a 25-point second-half surge that gave the Eskimos a record fourth straight Canadian Football League championship.

Trailing at halftime, 20-1, Edmonton struck for third-quarter touchdowns by quarterback Warren Moon and Jim Germany. Cutler's field goal came after Moon dove over from the 1-yard line at 10:55 of the fourth quarter and then hit Marco Cyncar for a 2-point conversion that tied the score, 23-all.

The victory wiped out gutsy performances by the Rough Riders, who were 22½-point underdogs, and their rookie quarterback, J.C. Watts, who was named the game's outstanding offensive player.

Edmonton had tried to win the game with a single point — a unique CFL scoring method — when Hank Ilesic punted into the Ottawa end zone with 1:22 remaining in the game. But the Rough Riders ran the ball out of the zone, thus denying Edmonton the point.

Going for Broke

Then, instead of trying to run out the clock (there is no sudden-death overtime in the Grey Cup; instead, the teams play two 10-minute periods), Ottawa came out throwing. After Watts failed on two straight passes, Ottawa was forced to punt and Edmonton began its winning drive from the Rough Rider 51 with 1:22 to play. Moon completed a nine-yard pass before three running plays gained 18 yards and set up Cutler's game-winner.

In the first period Moon was only 1-for-6 passing, with 2 interceptions. Tom Wilkinson took over in the second quarter and completed 10 of 13 attempts, but could put only one point on the board — a missed field-goal attempt that sailed out of the end zone for a single.

Ottawa, its 5-11 regular-season record being the worst record ever for a Grey Cup team, stunned the Eskimos early. The Rough Riders took the opening kickoff and, riding Watts' passing, marched to two quick field goals by Gerry Organ.

With the much-maligned Rough Rider defensive secondary giving Moon fits, Watts engineered another first-period drive that culminated in fullback Jim Reid's blasting over from the 1-yard line for a 13-0 lead. Ottawa running back Sam Platt added a 14-yard touchdown run in the second quarter.

Germany's two-yard TD run in the third period started the Edmonton comeback. Moon, who completed 12 of 21 second-half passes, kept the ball himself for a short-yardage touchdown that pulled the Eskimos to within 20-15.

A 28-yard field goal by Organ stretched Ottawa's lead to 23-15 at 6:38 of the fourth quarter, but Moon then hit on three straight passes for 75 yards before again scoring from the Eskimo 1 and completing the 2-point conversion pass to Cyncar.

Art Buchwald

Checkbook Journalism

WASHINGTON — A Japanese newspaperman came into my office the other day, bowed deeply, and said, "Forgive me for this awkward intrusion, but I am doing a story for a newspaper in Tokyo about Richard Allen and the Nancy Reagan interview."

"Ah so," I said, "I would be most honored to answer any of your questions."

"What do you personally think of this situation?"

"I would prefer not to comment on it," I replied, "until the Justice Department finishes its investigation."

Buchwald

He smiled and gave me a white envelope containing $100 in cash.

"Ah so," I said, smiling back. "But I cannot accept a bribe for granting you an interview."

"It is not a bribe," he said indignantly. "It is a tradition in my country to give a small gift of appreciation when someone grants an interview."

"Why didn't you say that in the first place?" I said. I called in my secretary and told her to put the envelope in the safe.

* * *

"Do you feel," he continued, "that someone in high position in office should accept a gift from a newspaperman for arranging an interview with the first lady of the land?"

"Mr. Allen expected nothing but he has great respect for your traditions and would do anything not to insult you. When Mr. Reagan took office the first thing he said to his foreign policy advisers was, 'Under no conditions do I want anyone in my administration to offend the Japanese.' "

The newspaperman smiled and handed me another white envelope. He looked at his notes. "What do you think Mr. Allen intended to do with the $1,000?"

"He says he intended to give it to charity."

"Why didn't he?"

"Because he forgot about it. You must understand, Mr. Allen is the president's national security adviser and he forgets very easily. One day he says a certain country is a threat to the United States and then he forgets all about it."

"Am I taking up too much of your time?" he asked.

"Heck no," I said. "Not as long as you keep passing over white envelopes."

* * *

"Mrs. Reagan knew nothing about the arrangement?"

"Mrs. Reagan doesn't even remember being interviewed by the Japanese magazine."

"That means she must be very unhappy with Mr. Allen?"

"Well, she's not working on a needlepoint pillow for him for Christmas this year."

The Japanese newspaperman was writing furiously.

"I don't want to offend you," I said, "but you forgot to give me another white envelope."

"Ah so," he said. "A thousand pardons."

"It's okay. But we Americans aren't used to answering questions for nothing."

* * *

"One final question. Is it your opinion that Secretary of State Al Haig is happy or unhappy about the way things are going for Mr. Allen?"

"He looked very disturbed the last time I saw him on television and I couldn't tell whether it was because of Mr. Allen or Nicaragua."

The Tokyo newspaperman handed me my last envelope.

As soon as he left I called Tom Brokaw and said, "The next time you want me to do the 'Today' show it's going to cost you 10 big ones."

"But that's checkbook journalism," he cried.

"Ah so."

Gandhi Film Planned For Release in 1983

New York Times Service

LOS ANGELES — "Gandhi," Richard Attenborough's $22-million movie biography of the Indian leader assassinated in 1948, has been purchased for worldwide distribution by Columbia Pictures after three months of negotiation.

"Gandhi" will be released at Christmas, 1983, in capital cities across the world, including New Delhi and Washington. The movie, which is three hours long, stars Sir John Gielgud, Martin Sheen, Candice Bergen, and Ben Kingsley — a half-English, half-Indian actor — as Mohandas K. Gandhi.

Tales of the Mississippi

An Englishman Discovers America in a River Voyage

By James T. Yenckel
Washington Post Service

WASHINGTON — "I hadn't bargained for such an adventurous life," says Jonathan Raban, at the moment safely bunkered over a bourbon and water (no ice, please) at the Watergate Hotel bar.

In only a few hours two years ago, though, this Englishman had "faced a storm, been nearly drowned in the dark and held at gunpoint," recorded in "Old Glory, An American Voyage," an acclaimed account of his 1979 solo journey down the Missisipi in a 16-foot motorboat.

He packs his pipe. "I'm a kind of genuine coward," he says. "As a child, I hated rugged sports like football. I knew if you got close to the ball, you'd get kicked."

The voyage "was totally out of character for me. I'm not mad for the out-of-doors. I'm a sedentary city person, totally dependent on the amenities of an apartment in a big city."

Having had no previous experience on the Mississippi, "I didn't recognize there was any danger. I assumed boats are much like small cars. I can drive a car; I assumed I could drive a boat. I was wrong."

The 2,000-mile odyssey from Minneapolis to the Gulf of Mexico, was an adventure dreamed of by a 7-year-old lad reading "Huckleberry Finn" on the banks of a stream by his father's Anglican church in Norfolk.

Early into the nearly four-month adventure, a drenching afternoon squall had sent him scurrying for safety on the Iowa shore. By sunset, though, the wind calmed, and he decided to chance his first nighttime run down-river to a warm room and dry clothes in Burlington.

Suddenly, a spotlight half-blinded him. A siren's blast warned him he was in the path of a fast-approaching tugboat. The sound was "as queerly, then scarily, intimate as the cough of a stranger in one's bedroom."

The high wake caught him broadside, nearly capsizing him and leaving him shin-deep in water. "Blubbering with shock," he beached cautiously at the lighted yard of a run-down wooden cabin on sticks.

Inside, Raban saw two elderly women and a man. Banging on the glass door, he watched as the man slowly picked up a shotgun and leveled it at his chest.

"I yelled that I was traveling down the river, I was English, I had run into trouble, I needed help."

Finally, the trio fed him coffee and cookies and drove him to town "where I fell in a heap on the hotel bed in my clothes."

Fear and Excitement

Because he is a coward, says Raban, the trip was made all that much more exciting. "One likes the things one fears. It gives you the edge of fright, and fright reminds you you're alive. . . .

"I'm 39. I love the idea of learning things late. It's so easy to get ossified."

A slight man of average height, he is dressed comfortably in blue cords and a windbreaker. A neatly knotted tie and narrow-brimmed corduroy hat give him the air of a grown-up pixie.

Reviewers have praised his seemingly easy ability in "Old Glory" and in his 1979 book, "Arabia, A Journey Through the Labyrinth," to meet and mingle with exotic types, from Yemeni card players to Knights of Columbus in Wisconsin. These encounters he captures in short, often sensitive but sometimes devastating portraits that have helped him win a reputation as a premier travel writer.

It is somehow troubling, though, that this ostensibly charming guy can write so harshly about many of the unsophisticated citizens of the bleak river towns who befriended the foreign visitor. In Minnesota, a lockmaster offered him a room for the night. His reward is this description of his wife:

"She looked like a retired lady wrestler. Slack-jawed, her eyes hidden behind the thick lenses of her glasses, she filled her outsize stretch pants to the last stitch. . . . A comedy show was running on the screen. When the audience laughed, Beverley paused in her popcorn eating, gave a perfunctory cackle and said, 'Funny, huh?' to me without moving her eyes from the TV. . . . Beverley and I were not hitting it off."

No wonder, as he points out, some critics are suggesting they would have been happier now if he had sailed by without stopping. "Unfortunately for us," wrote the Davenport (Iowa) Quad City Times reviewer, "the British writer stopped here and sentenced us to 19 pages."

And Sally, the St. Louis woman he moved in with for a bit until marriage threatened, was until recently "on my tail. . . . I was terrified." Back in the United States for a month to film Mississippi footage for television, "I had Simon & Schuster [his publisher] call her. They did my dirty work for me.

"She was wounded, she told them. So I rang her up, and we had dinner. We made up, and all her wrath changed. Her mother read the book, though, and told her 'He's got you to a T.' Now she's mad at her mother.

"How are you going to report life," he offers, "if you report it as a series of wonderful people? Some people are repulsive. Some are lovable. The book is subjective. It is how one sweaty traveler happened to find the people on his travels.

"If there's a real villain in the book, it's the person represented by me — the villain, the victim and the hero. My own justification for writing satirically is that I came out worse off."

He has been, perhaps, slightly stung by reviews that suggest he hit every bar up-river and down. "*You* put into port after 70 miles on the river. Your hands are shaking because you've encountered boils and whirlpools and tug washes. Who in his right senses wouldn't hit the first bar?

"I tried to spend a corresponding time in churches. I'm an agnostic, but I love theology — not so much as it touches God, but as it touches the insides of man. I like the language in which theology is phrased. It is so much more articulate than psychology."

He acknowledges that "mine is very, very much the writer's trip. If at the end there was no book in it, I might have been sitting in London regretting wasted time. It wouldn't have been significant to me — except as an amazing kind of error."

So far Raban has kept his mood light, bantering. But at one point, he turns serious:

"I watched Reagan on television last night," having been asked to do a newpaper piece on the president. "America has never seemed to me a foreign country, until now.

"My first experience with America was being 3 in Norfolk with an American air base at one end of town and a German prisoner camp at the other. The Americans were bigger and pinker and drove by in armored cars, chucking out candy. My mother wouldn't let me stay in the street where I wanted to be begging gum.

"We studied French culture in school. American culture was a gift. It came on you in the form of Coke and Elvis records. I founded a Bill Haley fan club.

"That America, I thought in a vicarious way I had become a citizen of, has turned mercurial, unpredictable. You wake up hearing Libyan planes have been fired at while the president sleeps. In England, our damage with Margaret Thatcher is internal. The world trembles at the edicts of Reagan — or is it Haig?"

In 1979 on the Mississippi, "It was transparent all the way down-river [that] people were going to go for Reagan. When the people talked, it sounded tough — about how America had been humiliated — but it was sad talk. It amounted to a bottoming out of American self-confidence. America's sense of identification has been bruised."

Shifting on the bar stool, Raban attempts to light a miniature pipe, finding one more thing about the United States that irritates him: "These American book matches don't stay lit long enough to start a pipe."

His humor restored, he warns that "Old Glory" shouldn't be taken too literally. He has "shaped" the stories, recollecting conversations "in tranquility." Consider it, rather, "an autobiographical novel" structured as the passage of life; Minneapolis is youth. Muscatine, Iowa, is adolescence. St. Louis and Sally are marriage. New Orleans is maturity.

For him, it is particularly important to get a proper American inflection into his writing about this country. So he jots down random conversations and slang he overhears, very often in a bar, adding musical notes to help recall the pitch of the voice.

In March, he will board a 33-foot fishing trawler that is being refitted for him, and for several months will explore the coasts of the British Isles. He hopes to see Britain "from the outside," to visit it as a traveler would "a new port of call. To arrive with your alienated mariner's eyes. It seems enormously exciting."

Meanwhile, he is flying back to London to a waiting girlfriend (divorced after a brief marriage, he does not contemplate another one) and lessons from a professional sailing master.

"I'm not a complete fool. I'm scared for my life."

John McDonnell, The Washington Post

Traveler Raban: "Fright reminds you you're alive."

PEOPLE:

East German Author Is Honored by West

Anna Seghers, a Communist author whose record includes a novel that became a best seller in the United States during World War II, was awarded the honorary citizenship of a West German city at her home in East Berlin. The award was from the city of Mainz, where she was born as the daughter of a Jewish art historian 81 years ago. The Christian Democrats in the Mainz city council did not vote for it and the honorary citizenship was decided by a majority vote of Social Democrats and Free Democrats. Seghers has been a member of the German Communist Party since 1927. She fled Nazi Germany in 1933 and went to Mexico. Her novel "The Seventh Cross" was published in New York in 1942 and became a best seller. Two years later, it was turned into a film directed by Fred Zinnemann and starring Spencer Tracy. Seghers returned to Germany in 1947 to the Soviet sector of Berlin. She has remained in East Germany ever since. Mainz Mayor Jocel Fuchs traveled to East Berlin to present the award.

* * *

In a rare public appearance, Russian-born philosopher Ayn Rand called the people of her homeland "bullies" to be dealt with strongly, but said President Reagan was not the man to do it. The 76-year-old author told 4,000 delegates to the National Committee for Monetary Reform in New Orleans that "most of the miserable Russians would defect" if there was a war between the United States and the Soviet Union. Rand, an uncompromising advocate of free-market capitalism, also blasted the Reagan administration and the news media during a question-and-answer session after her 30-minute address. "President Reagan is not an advocate of capitalism," she said. "He is an advocate of the mixed economy theory which will fail." Rand — who was educated at the University of Leningrad — called Russia "the weakest, most impotent country on earth. If the United States fought with them, you'd be surprised at what a cowardly performance they would put up. They are like bullies. They are to be dealt with very, very strongly or not at all, which is something President Reagan is not able to do."